

## **ABSTRACTS**

The following abstracts are short synopses of articles appearing in the Arabic part of the Review. They are summarized here for the benefit of those who cannot read Arabic. In a like manner, each major English or French article is presented as a short résumé in the Arabic section.

### **THE SURPLUS OF THE GERMAN BALANCE OF PAYMENTS WITH REFERENCE TO THE LIBYAN SURPLUS**

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#### **Summary**

1. By the end of the 2nd World War, Western Germany found itself in a desperate economic situation : 20% of its dwellings had been rendered uninhabitable, most of its industry and communications had been destroyed and even necessary food was scarce. Reconstruction became a necessity, but there were no savings and the "Reichsmark" was absolutely valueless and barter was the method of exchange. Banknotes to a nominal value of 6400 million Reichsmarks were issued in 1935 compared with 72,500 millions in 1945.

2. Through the Marshall Plan the U.S.A. lent Germany 20.5 Billion Marks between 1948-52 to be paid over 10 to 12 years. Europe started to produce for peace and European payments took place on "Bilateral Agreements", the number of which reached 200 in 1950. Germany faced a deficit in its balance of payments. The European Payments Union (E. P. U.) was formed with American influence, reducing the European need for dollars. E.P.U. stored European currencies and paid the deficits on behalf of its members, a fact which benefited Germany.

On 20th June 1948, Germany introduced the " Deutsche mark " through currency reform and 93.5 of Germany's money was saved. All restrictions imposed on production and distribution were cancelled and Germany's trade was increased but the deficit was still there. Unfortunately, the deficit was increased again because :

- A) Prices of raw materials rose during the Korean War and Germany had to buy at higher prices.
- B) Germany's share in the E.P.U. diminished and the U.S.A. reduced its help.
- C) Germany imported from Europe for cash and exported on credit.
- D. Rumours about re-valuation of Sterling caused a large amount of German Capital to leave the country.

Then E.P.U. appointed two international experts to study the German problem. They suggested a restricted monetary and financial policy and restricted Government investments ; Germany carried out the proposals. E.P.U., satisfied, extended another Loan of 120 m. dollars. Little improvement was made and the E.P.U., discontented and dissatisfied, appointed three other experts who supervised and reduced Germany's imports. By March 1951, the surplus appeared and Germany paid its debts to E.P.U. In fact, E.P.U. owed Germany 4581 m. dollars by 1958. The surplus continued mainly from the increase of exports, and the Deutsche Mark gained full convertability during the same year. People then talked about the "German Miracle".

3. Both exports and imports increased substantially. The 2204 B. Mark deficit of 1950 became a surplus in 1957 and 1958 reaching 1030 and 413 B. marks consecutively. Foreign currency reserves were augmented and gold increased from nothing in 1950 to 12.5 B. marks in 1960.

4. The mere existence of the surplus is a problem. Germany's neighbours has become anxious and are obliged to follow restrictive

policies and introduce exchange control, apart from sheltering in the I.M.F. Sterling and the D.M. created instability in Europe to the same extent as the Dollar and Sterling created it for the world. In 1957, people thought the D.M. was going to be revalued. They sold Sterling and brought D.M.s. The same thing happened in 1961. However, Germany is always frightened of inflation which may come as a result of increased gold and foreign currencies.

5. Germany followed a free economy, though it is called "Social Market Germany", built on :

- a) Insurance against disease, unemployment, etc.
- b) Free competition which determines income distribution and efficiency, guides factors of production to the most productive employments and assists technology.

6. 50% of the surplus came from trade with neighbours. Prices of German exports and also cost of living are comparatively low. Moreover, the Germans have a will to survive, work well together, do not strike, save about 20% for investment. They are technically advanced and honour short delivery dates.

7. Some British economists thought the German surplus would be a short-lived phase, because (a) German production and income were increasing, therefore imports would increase. (b) Local increase of demand would absorb some goods intended for export. Yet Germany proves that imports increase continuously, so does local consumption and exports.

According to the German view, unemployment is reviewed through the number of vacancies, a factor which had been in her favour since 1950 until now. Again, she says, the cost of living increased by 145.2% between 1950-1967 but the real wages increased by 249%. Germany believes, unlike Britain, that exports are not achieved at the expense of local consumption and that countries which increased exports have the highest rate of growth, a fact which stops inflation so long as

production is increasing (with less increase in prices and expansion of consumption).

8. Reasons for the expansion of German economy :

- a) Fear of inflation.
- b) Built-in checks against inflation such as the propensity to save.
- c) Tendency of workers not to strike. The National Income rose from 75.2 B.M. in 1950 to 361.5 in 1967 and the average income from 1602 mark to 6040.

G.N.P. increased because of :

- a) Very slow increase in population.
- b) Expansion of investment.
- c) Technological progress.

9. Germany is reducing the surplus problem by :

- a) Increase of imports and decrease of exports by 4%.
- b) Exportation of capital, yet rumours usually bring a big inflow of capital into Germany.
- c) Abolition of interest on non-residents' money. Nevertheless, Western Countries ask for rigorous steps such as :
  - a) Increased local consumption and imports.
  - b) Revaluation of the D.M.
  - c) Increase of capital exports.

10. Germany followed two policies in order to solve the surplus problem : Principally the monetary policy, through Bank Rate changes and open market operations. The secondary policy is the fiscal one and is used as an anti-cyclical and structural programme.

11. Germany's aims are :

- a) Stability of the monetary unit.
- c) Sufficient growth rate without inflation.
- d) A balanced B. of P's.
- e) Distribution of income according to production.

It is to be noted that the re-payment of external debts is not included, yet Germany mentions it frequently as something that she had nothing to do with.

12. Britain and France want to see the D.M. revalued and Germany wants Sterling and the Franc devalued. Germany thinks that revaluation means fewer exports and more imports.

13. Resemblances between German and Libyan surpluses :

- a) Increase, mainly, of exports.
- b) A past deficit and a present surplus.
- c) Increase of gold and foreign currencies.
- d) Fight against inflation.
- e) Increase of National Income.
- f) A free economy.

14. Libyan exports increased from L.E. 49 m. in 1962 to L.E. 417.3 m. in 1967 mainly because of Petroleum. Libyan imports too, were more than  $2\frac{1}{2}$  times what they were. The Libyan trade balance has been favourable since 1963. The surplus was over L.E. 34 m. in 1963 and reached more than L.E. 248 m. in 1967. The biggest importer of Libyan petrol has been Germany since 1964. The Libyan B. of P's has shown a substantial surplus since 1965 and Libya is taking advantage of that surplus and financing its development projects.

15. The Libyan Central Bank (B. of Libya) had no gold reserve in 1962 but has now over L.E. 15.5 m. Libyan banknotes are covered by 24% gold, the rest by strong foreign currencies. The Libyan pound is increasing steadily in value and was not devalued with Sterling because its gold cover did not change (Petrol exports increased from L.E. 280 m. in 1965 to L.E. 415 m. in 1967).

16. Libya is fighting inflation also through monetary and fiscal policies. If the German surplus is considered a problem for Germany and her neighbours, the Libyan surplus is a blessing for her and for her neighbours too.