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An optimistic look at the year 1968

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INTERVIEW

THE GERMAN ECONOMY

An Optimistic Look at the Year 1968

Interview with Prof. Karl Schiller, Federal Minister for Economic Affairs, Bonn

After almost twenty years of unparalleled economic growth, the Federal Republic of Germany has experienced a setback in 1967. The Federal Republic's Government is attempting to overcome this crisis with purposive economic policies. INTERECONOMICS had the opportunity of speaking to the Federal Minister for Economic Affairs, Professor Schiller, about development prospects for the German economy for 1968.

QUESTION: "Homogenous Economic Policy", "Concerted Action", "Controlled Expansion",—such are the catch phrases that have been used to describe the purpose of the Federal Government to influence the economic process in a different way than up to now. What guiding principle is German economic policy pursuing with these slogans?

ANSWER: The basis of the Federal Government's economic policy is and remains the market economy, for which the State must provide and guarantee the organisational framework. There is no better way of directing the economy. Pricing in the market and competition not only ensure a high degree of freedom but also permanently enforce an optimum use

of all production factors. Under present and future conditions, the efficiency of the free market system can only be guaranteed if the Government's policy of regulation can be supplemented by a policy of process, in the sense of the global control of the total economic aggregates. This overall control of economic forces and resources does not imply direct interventions in the economy. It is restricted to a systematic influence on the prerequisites and conditions on which individual decisions are based, and thus the indirect steering of the major aggregates of the total economic circulation, such as investment, consumption, the volume of employment, etc. A workable global control therefore demands close co-operation among State authorities

(for example in the public authorities' Council for Economic Trends) and with autonomous groups (for example in the "Concerted Action"). The aim of this economic policy is to achieve, within the framework of the market economy, stability of the price level, a high employment ratio and a balance of foreign trade and payments, as well as a continuing and adequate growth of the national economy.

QUESTION: Do you believe that the German economy has passed the bottom of recession in 1967, and that 1968 will be a year of expansion?

ANSWER: German business activities have improved again after a year of recession. Markedly livelier incoming orders in industry since the beginning of autumn business, slight stimulations in production and a clear improvement in the labour market are significant pointers towards a continuation of the period of recovery, just as they also point to the growing faith which German businessmen have in positive further development. The improvement is not yet, however, so far advanced that one can speak of a secured and lasting upswing. The new Federal Government's anti-cyclical economic policy, and especially the two programmes which are designed to increase investment, the clear improvement in the over-

KARL SCHILLER

is professor of economics and as scientist launched into politics. The political economist, today 56 years old, who since 1945 has been member of the Social Democratic Party, habilitated at the University of Kiel in 1939. In 1946, he accepted a professor's chair at Hamburg University and from 1948 to 1953 simultaneously was Senator for Economics and Transport of this City. In 1961 Professor Schiller became Senator for Economics and Credit in Berlin. He resigned office when he was elected to the Bundestag in 1965. In the course of the formation of a new government in the framework of a great coalition on December 1, 1966, Professor Schiller was appointed Federal Minister for Economic Affairs.

all political and economic climate in the Federal Republic, but also the development of business conditions in other countries—all these factors combine to make me optimistic that a return to prosperity will soon be reached.

QUESTION: Are the stated aims of the Federal Government's medium-term budgetary accounting—namely annual rise in national income in real terms of around 4 per cent, the restriction of increase of the price level to 1 per cent p.a., and full employment—a realistic projection or "merely" a political programme?

ANSWER: The medium-term projection is the result of a careful analysis of the presumable development of the individual production factors in our economy up to 1971. It is, indeed, not only a realistic forward appraisal of the possible total economic development, but a political programme as well. This programme envisages a fair and continual yearly growth of 4 per cent in real terms; the restriction of the annual price increase to 1 per cent till 1971; a rapid restoration of full employment; the balance of international trade and payments; and a more equitable distribution of income and wealth. This can only be achieved as a result of individual decisions made both by Government and by the autonomous groups of our economy. This calls for uncomfortable resolutions not only of the Government, but also of the industries and the trade unions. The time of a high selfsustained growth of the economy hiding all our problems is over. In the future we must calculate more accurately, and promptly adjust our economic policies. I am certain, however, that the success of our economic and financial policies will not be left wanting, all the more since co-operation between the Government and the autonomous economic groups in concerted action is a good one.

QUESTION: Ought the main emphasis of the Government's medium-term budgetary accounting up to 1971 to concentrate more on the

fiscal sector—safeguarding of the budget—or more on business activities?

ANSWER: Because of the great importance of public budget in the development of business in our country—its share in the appropriation of the gross national product is about 35 per cent—the one is inextricably bound up with the other. The decisive advance which we have made with the medium-term budgetary accounting in the Federal Republic has come about precisely because we have overcome a budgetary policy limited to one year and determined by day-to-day economic contingencies. Instead of this the development of revenues and expenditures is now planned in advance over a period of five years. It is an intrinsic part of the overall economic projection. Clearly the actual development of aspects of the business cycle will be carefully watched by the executive. It is the declared aim of the Federal Government, and also a bounden duty of the Law on Stability and Growth, to adjust the budgetary activities of the Federation to the needs of actual cyclical development.

QUESTION: Will the crisis in the public authorities' budgets, which will show big deficits for the next years, necessitate restrictive measures, higher taxes, etc, which will absorb the business impulses?

ANSWER: The Federation's medium-term budgetary accounting is balanced in receipts and expenditure up to 1971. To achieve this, drastic reductions in expenditure and higher rates of taxation were necessary. At the present time the Deutsche Bundestag is discussing this. Apart from these, no further restrictive measures will be taken. There can be no talk of a medium-term crisis in the budgets of public authorities.

QUESTION: Are the consequences clear of the introduction on 1st January, 1968, of the added value tax, as well as of the increase in the rate of the added value tax due in the middle of 1968, and of the collection of a supplementary levy additional to the income tax?

ANSWER: The systematic advantages of the added value tax in comparison with the old turnover tax consist above all in that a new taxation non-discriminatory as to competition is introduced, which affects domestic products just as much as export goods. The cumulative effect of the gross turnover tax has had one great disadvantage, in that the rate of taxation on sold goods and services was completely different according to the number of previously passed stages of production. The actual charge on any given product in any particular set of circumstances could not be assessed with any degree of certainty. This led, on the one hand, to manifold distortions of the price structure and with that of competition, and on the other, stimulated generally the concentration of enterprises. These disadvantages will be removed by the new added value tax.

Of course there will be a number of difficulties in the short term, when we change from a tax which has been in force for decades to a completely different system, and these difficulties will not only be psychological. One cannot work out in detail these developments beforehand, but one must give them the free play of the market. I am, however, confident that all administrative and other difficulties of adjustment will be overcome without undue frictions and that the introduction of this tax will have a very positive effect on the further development of the economy.

The supplementary levy of 3 per cent on the income tax will bring to those in the higher income groups a less pleasant additional burden. This was, however, necessary on the grounds of a better distribution of the tax burden according to capacity. I do not expect it to have any overwhelming clamping-down effect on business, all the more since the State has set in motion a new impetus, particularly for the entrepreneurs, because of the measures it has taken to stimulate business trends.

QUESTION: In the power field, particularly in coal-mining, structural problems (such as marketing

difficulties, closure of pits, redundancy of workers) together with the decline in the economy seem to have become more acute. What role will the adjustment of the coal-mining industry to the changed marketing structure in the energy sector play in the economic development?

ANSWER: Even a large industrial country like Germany cannot tolerate continued structural difficulties at its main source of energy without suffering adverse effects on the economy. Therefore the Federal Government sees, as one of its prime responsibilities, the necessity to adapt and improve the coal mining industry—which has been adversely affected by the changed sales situation of hard coal—in such a way as to prevent any great difficulty either for the industry or for the economy as a whole. With this in mind, already on the 24th May, 1967, the Government agreed on a bill for the adaption and rehabilitation of German coal mining and coal mining areas and in addition introduced a four-point programme on the 8th November, 1967. With that a liberal, advanced and social energy policy has been started. New industrial perspectives will be opened to the Ruhr and Saar with a healthy coal mining industry.

QUESTION: Do you think, the Government's economic considerations, as they touch on reactivation of the business trend and balancing the Federal budget, take sufficiently into account the position of the Federal Republic in the Common Market?

ANSWER: Yes, I do. In its recommendation of the 11th July, 1967, the Council of Ministers of the European Communities has called upon the Federal Republic of Germany—in the interest of satisfactory economic development and to prevent the encroachment of the weak economic trend in Germany on the other Common Market members—to introduce further measures to make use of the field of public investment, with emphasis on the individual Lands and municipalities. The Federal Government acted on this recommendation on the 13th July. With the

Second Industrial and Structural Change Programme the Federation, the Lands and municipalities contributed DM 5,300 million and apart from this additional funds of DM 4,000 million for investments, a.o. in the shape of interest subsidy, i.e. a total of about DM 9,300 million have been mobilised. Besides this,—as recommended—the old stocks were relieved with the change over to the added value tax. Finally we have followed the direction urgently recommended by the EEC with our medium-term budgetary accounting, i.e. by endeavouring structural restoration of the public authorities' budgets.

QUESTION: Abroad, the rebuke is occasionally made that the Federal Republic, as the main creditor country in the world, because of its bad economic policies exported its own recession to other countries. How do you see this reproach that the Federal Republic has taken no real steps to improve its economic policies, and may be pushing the rest of the world to the edge of an economic recession?

ANSWER: This reproach is not justified. The large surplus in the trade balance, which critics abroad have seized hold of, is above all the result of retained imports, as a consequence of the internal recession. Together with a rather normal growth in export trade—1966 plus 12.5 per cent and from January to October, 1967, plus 8.5 per cent—imports rose only by 3.2 per cent, and from January to October, 1967, even dropped by 5.5 per cent as compared with the same period in 1966. In these circumstances the Federal Government has applied just the adequate therapy with its measures stimulating business activities. With the internal economy normalised, the import deficit should disappear. Moreover the Federal Government has exported capital in the last months. Therefore up to now in 1967 there has been no balance of payments surplus worth mentioning, which could harm the foreign exchange position of our partners.

QUESTION: At the beginning of 1967 you coined the phrase "Foreign trade as much as possible,

export surplus as much as necessary". How can we put this phrase into real terms?

ANSWER: The importance of foreign trade for the growth of an economy is well recognised, thus the attempt to go after as much external trade as possible cannot be disputed. The necessity to limit the export surplus is not quite so understandable. Many people, in accordance with the rules of individual enterprise, would say: "Surely the greater the export surplus the better." When one has before one, however, the picture of upsets and disadvantages, this part of the phrase which you have mentioned becomes clear, too. Surplus in exports as much as necessary, refers to the structure of our balance of payments. We need a surplus in our export trade, in order to pay off the deficit of several billion Marks in the balance of service transactions and to even out our transfer account.

The demand for maintaining the balance of foreign trade and payments does not mean, however, that equalisation of the balance of payments has to be striven for every year. Occasional moderate surpluses or deficits in the balance of payments and with them inflows and outflows of foreign exchange are by all means compatible with the concept of balanced foreign trade and payments. What is decisive is that in the long run they should even themselves out over the period of the duration of an economic cycle.

QUESTION: Do you think that the high balance of payments surpluses of the Federal Republic could give weight to the demands of foreign countries for a revaluation of the Mark?

ANSWER: The speculation over the possibility of a revaluation of the Mark ought to be over, since the devaluation of the pound sterling. The Council of Experts on Economic Development has worked out that devaluation of other currencies in the last few weeks has added between 3-4 per cent to the value of the Mark in international trade.