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"Tranquilliser"—Revaluation

But the World-wide Problems will not be Solved by the German Step

This May Minister Schiller intended to revalue the D-Mark. But his initiative failed due to the Ex-Chancellor's opposition who said he would keep the exchange rate „stable for eternity“. This eternity did not even last six months, for on September 29 the exchange rate of the DM was unpegged by the same Chancellor. This meant a de facto revaluation. For Professor Schiller, again Federal Minister for Economic Affairs in the new government of Chancellor Brandt, remained the triumph to execute the de jure revaluation — by the way against the advice of numerous scientists who even a few days before had advocated a long-term adherence to a flexible exchange rate. Politicians, however, obviously believe that the time has not yet come for such a step. They stuck to the fixed parity.

The main target of his measure is the restoring of the balance of foreign trade and payments and to brake the threatening further upward trend of prices. The rapid realisation of this objective is, however, impaired by the delay of the revaluation. For, no matter how necessary this corrective adjustment of the exchange rate was, it came almost too late for the German economy that more and more adapted itself to the foreign trade and payments situation by a remarkable internal tendency of prices to rise. But this process cannot be stopped abruptly even by this revaluation. The trade unions at any rate do not seem inclined to cut down their wage demands. And it also is not improbable that, as long as the domestic economic trend is still favourable,

the entrepreneurs will raise their prices now more than ever on the home market in order to compensate for possible deteriorations of their profit situation in the export markets.

The theoretically possible cheapening of imports will hardly block these upward tendencies in the short run. For, if the favourable market situation continues, a complete passing on of the price decrease can be avoided in all probability.

The full impact of the revaluation is most likely to be anticipated only after six months, when the domestic economic trend is again firmly controlled through supporting measures and the revaluation effect will be more pronounced, above all with regard to export transactions and services.

But this is mere speculation, too. For, export demand does not only depend on the price level but also on a number of non-price factors that possibly will compensate for the price increases. This is probable all the more as a big share of export taxation of 4 p.c. could be passed on so far to the foreign customer. Since this tax has been eliminated together with the revaluation the actual rate of revaluation is considerably lower than 8.5 p.c. for many industrial sectors.

This may explain why the German economy (apart from agriculture and shipyards) has accepted this measure with a remarkable composure. More composed anyhow than some foreign countries which were more or less shocked even by the unusual level of

the revaluation rate. Thus there was no lack of warning comments abroad — and certainly not only because of the fact that the redemption of accounts payable in DM has now become more difficult. Obviously there is a background of genuine concern about the stability of the world economic situation in which the Federal Republic plays a major part. But this fear seems to be unjustified, for the German economy will most probably be able to put up with the high rate of revaluation. And simultaneously this way it contributed decisively to the stabilisation efforts in France, Britain and the USA.

But internationally this German step can only then contribute to a world-wide stability if the other countries fight inflation in their economies resolutely — an inflation that is not always a creeping one only. Schiller's measures — just the same as the devaluations in Britain and France — must not be counterbalanced by inflationary policies of internationally important trading countries.

However, as long as this is the case, new exchange rates will become necessary time and again. Insofar the German revaluation did not solve the problem of international stability but postponed it only. A new international monetary system should be created to avoid a permanent compulsion to revalue or to devalue. Might it not be feasible that those scientists believing in flexibility, and who were not listened to, have already shown the right course to be taken?

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