

Arndt, Klaus Dieter

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Highlights of the Brandt Government's Economic Policy

Interview with Dr Klaus Dieter Arndt

Parliamentary Secretary of State in the Federal Ministry of Economics, Bonn

Dr Arndt, the new Government has completed its first 100 days in office. Both friends and opponents of the new Coalition Government are busy drawing up a first survey of what the Government have done. Let us try the same. The first incisive and probably inescapable economic measure taken by the new Federal Government was to revalue the German currency. Your Government can certainly not be made responsible for its timing. But will the rate of revaluation of 9.3 p.c. be sufficient for putting an effective brake on the visible trend of West German prices to rise?

Revaluation Came Too Late

The form in which you have posed your question has already provided part of the answer. It will, however, be necessary to give separate accounts of two aspects of the question. In the first instance, the decision to revalue the DM on October 24,

1969, has laid one of the indispensable foundations for restabilising the price level. By choosing a revaluation rate of 9.3 p.c., we have not only wiped out the differential, which had developed between German and foreign price levels up to the autumn of 1969, we have even kept in hand some small margin to safeguard our future development.

But then, the second part of the question has also to be answered: was our timing right? For it must not be forgotten that the effect of stabilising prices was weakened by the long delay in revaluing—upward price corrections, to make German prices approximately equal to those in other countries, could no longer be prevented. In the meantime, however, revaluation has become operative, and we may safely neglect the danger of a mounting cost and price spiral. Of course, the Federal Government is not able—without endangering economic growth and full employ-

ment—to eliminate, at one blow and completely, the effects of its predecessor's omission to stabilise prices during the spring and summer of 1969. But our main task will be now to supplement the revaluation's stabilising effect by well thought-out and properly measured steps. For this purpose, the Federal Government has, in part, already enacted and, for the rest, drafted and proposed a range of economic and financial measures, which were enumerated in its annual report on the economy for 1970.

This report is now under discussion. Which growth rates, both in money and in real terms, may be expected to prevail, in your view, on the basis of your measures, during the next four years?

It is obvious that future growth rates of our economy largely depend on the current situation. This is characterised by an unbroken boom, which will certain-

ly leave its imprint also on developments in 1970. My guess is that over the five years of 1969-1974, we may expect an average growth rate of the GNP, in real terms, of about 4.5 p.c. Expressed in terms of money, this growth rate might be estimated at about 6.5 to 7 p.c. p.a. I should like to draw your attention to the occasional misapprehension, which equates the difference between growth in money and in real terms with a drop in purchasing power of the currency.

Price Development

Such a decline, however, will take place if and when, on the one hand, wage increases, which are not only in the offing but are considered as justifiable by your Ministry, and, on the other hand, the costs of enterprises push up consumer demand further.

You are correct in saying that price increases are not only being caused by the wage trend. At least as important as wages is the way in which productivity and demand develop. If exaggerated demand, caused by an overheated business cycle, is not dampened down in time, company earnings will rise much faster than wages—as was the case in the Federal Republic during the upward swing of the economic curve—we may not expect that the development of the wage structure can remain unaffected by it. But this does not mean that the wage trend is unimportant to a further stabilisation.

You will probably agree that, in order to be successful, you must not only work hard but also be favoured by the gods who dispense good luck. You are "fighting" hand in hand with the Federal Bank for price stability. Will the Bank operate a credit squeeze during 1970?

The Federal Bank has operated its credit squeeze from the spring of 1969 onwards, in order to keep down price rises, from the financial side, to the inescapable minimum. These restrictions came on top of exceedingly high exports of long-term investment capital and of the withdrawal of excess liquidity in the wake of revaluation, so that liquid funds in the home market have been drastically reduced and the rates of interest were lifted to a level which will not be acceptable in the long term, even in the view of the Federal Bank.

How the Bank's policies will shape over the current year, will depend, on the one hand, on the needs of the cyclical trends in the home markets, as the Bank sees them, and on the other hand, on the trend of international interest rates. It is a matter of course that the Federal Bank will have to make its policy decisions in complete independence. However, I am convinced that the Bank will change course in time, should cyclical developments make this necessary. The Federal Government has already taken a big load off the Bank's shoulders by its programme for stabilising home markets. In addition, Professor Schiller, the Federal Minister of Economics, will try to achieve international agreements on reducing the rates of interest in important countries, as soon as cyclical conditions permit this.

Export Prospects

Together with other steps, such a move might put the brake on price increases. This would be a hopeful development especially for our export industries, because their competitive strength has been sapped by revaluation, and exports are making a decisive contribution to our economic growth. Do you

expect a drastic fall of our exports?

I do not expect an actual drop in our exports, but our export trade will surely grow more slowly than hitherto. After all, it was the pivotal aim of revaluation to cut down our perpetually high export surpluses, through increasing our imports and through reducing export growth rates. Our forward estimates for 1970 assume about 5.5 p.c. export growth during 1970—as against increases by 14 p.c. over the previous year in 1969, and slightly more than 13 p.c. in 1968.

Do you envisage a drop in export growth rates also in Germany's east-west trade?

As you know, we are highly interested in expanding our trade with eastern states. It is very satisfactory that our efforts in this direction have so far been successful. In practice, we have now liberalised imports from Poland, the CSSR, Rumania, Hungary, and Bulgaria to the extent of 63 p.c. of all tariff items. We shall continue this policy. At the same time, our negotiators with eastern governments have been instructed to grant as high bilateral import quotas as possible to their negotiating partners.

It is to be regretted that the main export goods available in eastern countries—e.g. farm produce—do not find more than limited markets in the Federal Republic, which puts an effective ceiling on exchanges with them, for our eastern trade partners can, by and large, buy goods and services abroad only within the broad limits of their export earnings. In this context, we aim at improving the financial basis for part of what the eastern governments wish to buy from us. In order to dismantle the existing obstacles, we ascribe high significance to German companies cooperating

with production plants in the East. As far as is feasible, we will support such cooperative ventures. In the longer term, at any rate, we ought to get away from making only purely commercial agreements with the eastern governments, and strive for long-term framework agreements on principle to regulate all economic relations with them. We have already been able to agree on the text of such a compact with Rumania.

The Common Market and Its Integration

Almost in the same measure as prospects for closer economic cooperation with the countries of the Eastern Bloc are hopeful for the Federal Republic of Germany, as disastrous seemed, until recently, the disintegration in whose grip the EEC was caught. But will not all other decisions taken now remain provisional, as long as the Six do not agree on common policies on cyclical efforts, on financial and currency problems?

I agree with you. Not only the market for farm produce will remain on a provisional basis as long as we fail to erect strong defences against economic disequilibrium between the Community's members. We in the Federal Republic have been among the main sufferers from inflation crossing national frontiers in double-quick time during recent years, and we have learnt that distortions and restrictions of exchanges of goods, services, and capital will be the inescapable effects of this disequilibrium.

What we want is clear. Herr Brandt, the Federal Chancellor, has suggested during the EEC's summit conference in The Hague on December 1 and 2 the adoption of a graduated plan for making the intended economic and currency union

in the Common Market a reality, and to decide still in 1970, through the European Community Council, that the proposed draft to be hammered out till then is to become EEC law. Our partners have agreed to his suggestions. However, the road that will lead us there cannot be travelled through in a day and a night. It behoves us to remain realistic. Our view is that the first stage of integration will require effective harmonisation and coordination of EEC members' economic policies. Only after a better equilibrium in economic development has been assured within the Community, we can enter on the second stage of building an economic and currency union.

The Entry of New Members Into EEC

And how do you judge the prospects for an enlargement of the EEC?

This is a wide field, which cannot be circumscribed by a few well-chosen sentences. It may safely be assumed that a bigger area of the Common Market would make for a much fuller development of Europe's economic strength. After highly developed national economies have fused their activities, the result will probably be a new and powerful impetus to growth. The applicants for membership, especially Britain, will bring with them as their dowry a many-sided and highly evolved technology. On the other hand, it is certain that there will be difficulties of transition for both the existing EEC and the new members—it is only necessary to mention agricultural problems and Commonwealth preferences. Another problem that had been foreshadowed—the potential burden for the EEC represented by the weakness of the British balance of payments—has fortunately lost its urgency.

I am firmly convinced that the EEC cannot forever remain restricted to the Six, if it wishes to hold its own side by side with the superpowers politically, economically and technologically. It is high time, apart from economic aspects, for a closer European political cooperation.

For a Reformed Structure of Capital Exports

Finally, let us come to the subject of development aid. It may be surmised that the Federal Ministry of Economics has not yet touched the limits of promoting capital exports. Do you intend to set up additional incentives for German direct investments in developing countries?

I am much in favour of increased German direct investments abroad, especially in developing countries. In recent months, through the Second Amending Act on Taxation, we have dismantled fiscal obstacles that might make direct investments more difficult. Professor Schiller, the Minister of Economics, has repeatedly pressed on German businessmen the voluntary formation of a joint risk-bearing association. Such a cooperative effort might be able to reduce through guarantees part of the risks which are always involved in investments abroad. Of course, the Government would have to back up such an association of guarantors through its own reinsurance guarantee.

But such measures would change only the structure of German capital exports. As to their volume, it was higher during the recent months of international trade disequilibrium than we have provided for in the medium term. In line with our ascent towards improved foreign trade equilibrium, this will have to change.