

Schiller, Karl

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Normalisation Process Under Way

An Interview with the Federal Minister of Economics, Professor Dr Karl Schiller, Bonn

The Federal Republic of Germany finds itself in an economic dilemma: on the one hand business activity is weakening, on the other hand, costs and prices continue to increase. Do you think that the situation will normalise itself without any further action on the part of the Federal Government?

I would like to say the following with regard to demand development: the economic measures taken last year by the Federal Government and the Federal Bank were aimed at controlling the overflowing demand. They have succeeded in initiating step by step the necessary reduction in demand. It is a commonly observed economic phenomenon that costs and prices continue to increase for a certain period during an economic decline. We should not overestimate the importance of this problem during this phase of business activity.

True, with regard to the trend of wages and salaries weak reactions on the change in the economic situation can be noticed in the latest collective wage agreements. But the development in line with the Govern-

ment's orientation data is so far generally insufficient.

Should the normalisation process, however, not continue, then the Government would have to counteract with new measures. But I believe that for the moment we should continue to observe the normalisation process. At present it seems to me that there are many indications that we should for the time being dispense with economic intervention of any kind.

No Conflict between Unemployment and Inflation

Would you be willing in an emergency to accept an unemployment rate of 1 p.c. if this were the only way to attain greater stability?

You obviously insinuate in your question that an obstinate conflict exists in the Federal Republic between a high rate of employment and an optimum stable price level. I believe, however, that we still have in the Federal Republic an adequately alert stability-consciousness in business circles and among the population, and also adequately functioning devices to prevent

such an obstinate conflict of objectives. We do not face a choice between unemployment and a higher rate of inflation in the Federal Republic in the near future. Certainly: we want to reduce last year's overemployment, but we are against unemployment due to a decline in business activity. Our guidelines for 1971 are very clear in this respect.

Would the Federal Bank not have to first of all loosen the reins in order to prevent an increase in the decline of business activity?

The Federal Bank has repeatedly stressed in the last few months that it will continue to carefully relax its interest and liquidity policy. It has, however, attached the condition that the price and cost normalisation tendencies must become stronger.

I agree completely with these views of the Federal Bank. And I do not feel that the plans of business will be hindered by an overly strong liquidity scarcity.

Where do you stand with respect to the reproach that the

Federal Government, through its guarantee of full employment, has made possible or even supported wage and price increases?

Action in Accordance with Stability and Growth Law

I regard this reproach as false, or at least as misleading. All economic measures of the Federal Government are taken in accordance with § 1 of the Stability and Growth Law, which states: "Measures are to be taken in such a way that, while remaining within the framework of the free market, they simultaneously contribute to the stability of the price level, to a high rate of employment and to a balance in international trade and payments, along with continual and reasonable economic growth."

A government which takes these targets seriously cannot promote a conscious policy of recession. For such a government unemployment cannot, I repeat, be an economic tool. The Government must, due to its responsibility to the law, strive for a high level of employment. But, of course, there is no guarantee for overemployment.

For a long time nothing more has been heard about a "Concerted" Action. Is your optimism with regard to a "collective common sense", which should find its expression within this institution, not exaggerated?

The "Concerted" Action is better and more efficient than the reputation it has in some circles. We have as a result of these talks in the "Concerted" Action markedly improved the level of information for all, and have established a more factual discussion about the problems of the economy between the Government and the large groups in our economy.

Of course, the present phase of business activity demands a very special degree of rationality from those involved. But we can clearly recognise, e.g. in the target projections of the labour unions and industry, that the conceptions of those involved with regard to the remaining questions concerning the entire economy are not so far apart from one another. And you will also perhaps understand that I evaluate as a sign of "collective common sense" the unanimous acceptance by the "Concerted" Action of the guidelines set by the Government. This applies also to the employers' associations' and trade unions' readiness—as stated in the last meeting of the "Concerted Action" on March 3, 1971—to support the Federal Government's efforts for regaining stability through adequate decisions of their own.

Delay of Planned Reforms

Is the Federal Government as a result of its own economic policy now forced to postpone, or even forgo, the implementation of important reforms, considering that they cost money?

It may be correct that the Federal Government must postpone some of the planned reforms for the time being. This hardly applies to the reforms announced in the Government Declaration by Federal Chancellor Brandt, but very likely to subsequent proposals. We will have to stretch out some urgent tasks over a longer period of time. In a full employment economy the state can only slowly and gradually increase the share of production factors which it absorbs for public services, if tensions are to be avoided while doing so. This is also a reason for extending the time for the reform program somewhat.

How unsocial do you personally regard price increases in the present degree to be?

Of course, price increases of 3.8 p.c., as we experienced them last year, have also a negative social component. But we must consider that in 1970—as opposed to previous stages of the boom phase—the interest level, also for savings, was considerably higher, and therefore counteracted to some extent the higher price rate. The faster such accommodation processes take place, the less the negative social effect of the price increases, without even considering last year's real wage increases of about 8 p.c.

This does not mean, however, that I would here like to speak out for a relative monetary stability: the present price increase is too high. We must reduce it. We can do it, too, if the Government guidelines are observed.

More Stability through Monetary Union

Must we not in the future expect, on the average, higher price increase rates than in the past, especially since—as now seems apparent—we are moving towards a closer monetary and economic cooperation within the EEC?

The less elastic the supply of production factors in a national economy is, the smaller the path between full employment and price stability. To that extent the opening of the markets in Europe also has a stabilising effect.

With regard to the most recent decision of the European Council of Ministers in Brussels to develop an economic and monetary union, I can conclude that this has greatly improved the chances for a larger degree of stability in the Community as a whole.

All member states have committed themselves in Brussels to stability and growth as economic objectives of equal importance. The opportunities for a community of stability are present, and naturally the Stability and Growth Law is still valid. Our freedom to act as an individual state will not be limited in the next few years.

The reserve and precaution clauses of Brussels were registered by you as a success. But does the danger not exist that the Federal Government will manoeuvre itself into a position where it is forced to act or into an isolated position when the first stage reaches its conclusion, if on the one hand the monetary cooperation and the expected harmonising function, but, on the other hand, the

partners are not willing to swing towards the economic, and especially the stability, conceptions of the Federal Republic of Germany?

In the decision of the Council of Ministers of February 8/9 it is very clearly stated that a satisfactory economic growth, full employment and stability are part of the essential objectives of the economic and monetary union. All partners are, therefore, committed to the stability policy. And it is certainly not the case that the Federal Republic stands alone with regard to this matter. Just as much as ourselves other member-states, actually all, have laid great stress on the importance of a mechanism which has found its expression in the reserve clause.

Aside from that, though, this clause is not supposed to hinder further integration. It should rather produce a healthy pressure in such a direction that all member-states will be willing to move towards common action in the economic and business activity policy, once the mostly monetary steps of the first stage have been taken.

I am certain that this pressure will have the desired effect: simply because all those involved are fervently interested in closer economic and monetary collaboration. I do not foresee any danger of German isolation, also for the reason that all EEC partners have in the Third Program for the middle-range economic policy reached agreement on economic targets suitable for stability.

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