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Business Prospects in Germany

Interview with Dieter Möhring, Chairman of the Board of Management of Standard Elektrik Lorenz AG (SEL), on current cyclical trends in the Federal Republic of Germany.

Herr Möhring, Germany's industries having a high export ratio sharply criticised the Federal Government's external and internal economic measures affecting both our export and home trades. What is the basis of this criticism?

The background of the criticism is our deep concern for the competitiveness of our economy abroad. We objected mainly against the floating of our currency, which is more than the equivalent of a 5 p.c. de facto revaluation of the DM. This in itself would not have been so aggravating but already in the autumn of 1969, we have gone through a fairly drastic experience of the same kind, and on top of this, German industry is threatened by the peril of an enormous cost explosion. I may only draw your attention, in this context, to the fact that large German concerns have suffered from a significant fall of their profits already in 1970, which in some cases reached a level above 30 p.c. And some of these com-

panies are those having a high export ratio.

There is not one business, and especially no export business, which can survive without a large modicum of security. And the security of any export industry is largely based on constant rates of exchange. Especially for long-term export transactions, this kind of security is of immense importance, especially when foreign clients, which is often the case, are dependent on rigid budgeting — e.g. the budgets of government agencies. Sliding revaluation, even if it proceeds by small steps only, has an adverse effect on the security in clearing procedures. Invoicing on a DM basis does not protect us against trouble because, as experience shows, clients regularly approach us, after changes in our exchange rate, with requests for a renegotiation of our prices.

Need for Security

In spite of a steep rise in German prices, the Federal Republic in the past, compared with other countries, was

usually holding its place at the lower end of the price spiral. It might therefore be argued that the competitive disadvantage imposed on Germany's export industries by floating of the DM will soon be changed back into an advantage. What is your view on current prospects of German industry?

In order to make up for the competitive disadvantages under which Germany's export industries now have to labour, other countries would have to develop a whackingly high rate of inflation. I cannot believe that this will be the case very soon. But supposing that the value of our main customers' currencies would dwindle steeply, this—it is true—would yield our industry a superficial benefit. But still, I feel very uneasy about casting out devils by Beelzebub. A new imbalance between different currencies would thus grow, and there would be renewed pressure on the DM to obtain its further revaluation, and the merry roundabout would be given another turn.

What I believe is that the current situation demands of industry, first and foremost, that it keeps its own house in order. We must endeavour to stabilise our costs again, at any price, in the home market, and abroad we must return to competition by our traditional forte, i.e. the high quality of our products.

At present, German industry is going through an extremely difficult period in its foreign dealings. We must get to the end of this valley of sorrows, which is of different length for the various branches of industry, depending on the share of exports in their total turnover. If need be, German export industries must be placed in a position where they can offer as favourable conditions for financing their trade as obtain for their foreign competitors. In the long run, of course, I am not greatly worried about German industry's chances in the world markets.

Timing is Important

What kind of measures ought to be taken in order to return to greater monetary stability?

In selecting economic measures for achieving a sufficient degree of monetary stability, and in assessing their effectiveness, we must not only look at events of recent months, nor must we expect of recent measures of currency and home market policy a swift and incisive effect, because the explosion of costs with which we are still faced is too powerful in its inevitable independent impact.

Besides, the question is not only what kind of measures are being taken but how far-reaching they are and, even more important, whether their timing is correct. Moreover, any kind of economic measure may have entirely undesirable results if it is based on a faulty assessment of the kind of behaviour ex-

pected of the social groups which have to be influenced by them.

From recent years, many examples could be quoted of such faulty assessments. Of what I am thinking now specially is e.g. that the Federal Government, when revaluing the DM in the autumn of 1969, omitted to couple this measure with a stabilisation programme for the domestic market. It passed such measures of stabilisation later, but even so, continued increase in public spending was not a suitable influence for persuading both employers and employed people to act in the desired manner. The Federal Bank alone was also not in a position to achieve this target. Even though all the right steps might have been taken, this was done in a hesitant way, and therefore came too late.

In the meantime, wage rises have been progressively so much bigger than the increase in productivity that the present cost explosion could only be contained by a considerable cut in wage demands, supported by stabilising behaviour of the public authorities. This is the aim of the decisions made on currency and home market policies.

I believe that present prospects for achieving a reasonable monetary stability (which, however, must not be mixed up with the stability of price indices) are better than only a few months ago, due to the current business situation and to the measures which have been taken. But patience is needed in looking for this desirable change, because rapid success cannot be expected, especially not in regard to the cost-of-living index.

No Recession Expected

Future business development will depend largely on the employers' decisions on future in-

vestments, and on new wage demands made by the trade unions. Do you expect that an economic recession or even stagnation, are threatening us?

No, I do not anticipate a recession. Of course, my confidence is based on the hope that neither our own country nor the other industrialised nations, with whom our economic fate is closely tied up, will commit all the possible errors in their cyclical policies.

But let me be more explicit: it is, naturally, not true that businessmen are guided by their whims and fancies in making decisions to invest. They base such decisions on their calculations of future profit margins, on the analysis of their economic surroundings, briefly on their expectations about future prospects. That is why the decisions to invest are strongly influenced by both the economic policies of the Government and even more so by the trend of costs. The enormous inflation of costs pressing on the economy already since the autumn of 1969 acts therefore as a major obstacle to developing a favourable climate for new investments. Moreover, funds originally earmarked for investments have shrunk in value through the loss in the value of money to such an extent that they are now too small for supporting growth in real terms, or even so small that they cannot any longer guarantee past volumes of investment — which is much worse.

Thus, it is by no means empty verbiage if, in agreement with our Government, the clamour for a stable value of the currency becomes progressively louder. By increasing wage costs per unit produced by 13 p.c. in 1970, the Federal Republic, among all industrial countries, has achieved an unenviable record. Much of this

increase continues into 1971, which means that the Federal Republic is likely to suffer again from the largest increase in wage costs during the current year.

My expectation that we do not face recession or protracted stagnation under conditions of a big loss in monetary values (the so-called "stagflation") is naturally bound up with the hope that a minimum of reasonable behaviour will prevail in wage negotiations which are now pending. Actually, both employers' and workers' representatives are now saddled with decisive responsibility for maintaining economic stability and for future cyclical developments.

Emotions Must Not Rule Cyclical Policy

In spite of the numerous tools for a forward-looking economic policy which are now in the hands of the Federal Government, cyclical fluctuations seem inevitable. Do you believe that our business policy can be purged of emotionalism, in order to reduce the degree of uncertainty?

I am convinced that future cyclical fluctuations cannot be wholly avoided, because our economy is much too complex for that, and its complications are increased by its being subject to international influences. It is, by the way, not even necessary, in my view, to strive for a complete absence of fluctuations in the economy, because this would lead to *dirigisme*, which kills private initiative, with many adverse and well-known consequences. It is only necessary to flatten the extreme amplitudes of cyclical changes, and I believe there are practical chances for doing so.

You are aware of the fact that cyclical movements are also

sensitive to psychological influences: if the basic economic trend is not very stable, it is actually possible to produce a recession by talking about it. Therefore, it would be a distinct improvement if the discussion about aims of social and economic policy could be cleansed of too much emotionalism. In a way, but by far not sufficiently, the Law on Economic Stability with Growth has already achieved this, and the so-called "Concerted Action" endeavour does the same. We have now permanent committees which hold a constant watching brief for examining costs and profit yields of companies and the movements of prices and wages.

By paying more careful attention to advance indicators, it would doubtlessly be possible to make a cyclical policy more businesslike, which would reduce its uncertainties, though it must be admitted that quantifiable advance indicators, including the order flow, volumes of orders in hand, changes in inventories, credit volumes, and stock of money, are not wholly sufficient for this. It is necessary to include in the field of observation also qualitative advance indicators, e.g. how commerce and industry assess business developments, the intentions to invest, the climate in the capital markets, and the feeling among consumers, all gleaned from the so-called "economic surroundings" in which business operates.

When quantifiable advance indicators signalise impending distortions of the economy, coupled to a similar trend in "economic surroundings", measures to stabilise the trade cycle should be decided upon immediately, and independently of day-to-day politics. Without doubt, we have already made a good start in trying to establish

an "early-warning system" about cyclical trends, and we should continue to build on this foundation in the direction I have indicated. Quicker data processing of official statistical returns and accelerating the process by which decisions on cyclical policies are being made are indispensable.

It will be necessary to amplify the Law on Economic Stability for this purpose, in order to make the tools for influencing trade cycles more effective. Provided the Government abstains from *dirigiste* interference with the economy, I believe that, under such conditions, the aim of achieving steadier economic growth without affecting stability might be reached. Such changes would also create greater confidence, which is of such decisive importance for the propensity to invest, recently and even now subject to such varying pressures.

The Need to Invest for the Future

At the Hanover Fair, you were heard to say that, in the long term, the conditions for steady economic growth and for inducing a continuous propensity to invest are more favourable than in the past, for there was a greater general consensus than ever in the Federal Republic about the need to invest for the future. But does not the Federal Government's decision in favour of stable prices and against internal reforms prove the opposite to be true?

I am not of the opinion that the Federal Government strictly opposes internal reforms because it wants stability. It is not possible to take more than one step at a time, and at the present the fight against further devaluation of the currency must have, also in my own view, overriding priority. Therefore, it is certainly correct to postpone

certain investments, which would serve so-called internal reforms, or to phase them over a longer period. In this context, I would like to replace the sharply contested idea of internal reform, which has a political hue, by the less emotional description of "structural tasks for the future". There will never be a government, no matter what its political colour may be, which could oppose tasks of the future. To tackle these tasks is simply imperative, if we intend to play a respectable part among industrial nations also in the future.

Public opinion, including that of businessmen, is nowadays strongly impressed by the need to master vast structural tasks. That this is so, convinces me, together with a number of other factors, that there is a good chance for making further growth steady and for supporting a continuously high propensity to invest.

"Investments in our future" are those for education, for enlarging the network of communications and telecommunications, for making our cities and towns again viable, for building hospitals, for protecting the environment, etc., and these requirements are of such vast dimensions that a more steady growth could be put at risk really only by extreme mistakes in our cyclical policy.

Less Emotional Planning

What are desirable conditions for planning such investments in our future?

Since practically everybody acknowledges the need for solving these vast infrastructural problems, the fundamental questions connected with them must no longer remain the object of party quarrels. Such tasks must be solved with determination, quite irrespective of the party

colour of the Government at any one time.

A striking example of such a task are the plans of the Federal Postal Administration for enlarging the network of telecommunications. Though this is an urgent problem of the infrastructure, planning for this purpose is carried on unemotionally and independently of day-to-day politics.

Taking emotions out of planning means to tailor planning to actual requirements and not to changing political aims. Requirements are to be studied carefully, including polling the individuals and businesses which create demand. This method of testing demand is being widely used today by private business concerns, and the Government should use it, as a matter of course, because demand is definitely quantifiable, and is directed towards certain quality levels, irrespective of whether it is to be supplied by private business or by public authorities.

The problem of fixing priorities cannot be the beginning of planning. Planning has, first and foremost, to register actual demand, independently of thinking about priorities. Later, when it is found that funds needed to finance production and capacities are limited, classification by priorities may begin.

Another contributing factor to fixing priorities is the urgency of different kinds of demand. Priority must then be given to any kind of demand where the gap between, on the one hand, progressing social, economic, and technological developments and, on the other hand, the necessary investments in the infrastructure is widest. Moreover, priorities must not be misunderstood as a simple scale of timings but they have to be subject to a list of focal areas where development is most urgent. This

will also contribute to steadying economic growth.

Since growth of demand progresses similarly as in the Federal Republic, though with differences of degree, in other industrialised countries, I also believe that this kind of planning will continue to offer good chances for our exports.

Higher Taxes Are Inevitable

Do you think that investments in our future make higher taxes inevitable?

Most definitely, yes, and not only that. From what I have said so far, it can be clearly seen that present and probable future government revenues are insufficient for financing these projects fully. The Government will, of course, try, as far as possible, to call on the capital market for credits to fill the gap in its finances. But also the capital market has its limits, and it would be a delusion to believe that tax increases can be avoided.

I also believe that the Government will transfer a sizeable part of the burden of environmental protection, which is needed, on to the shoulders of private enterprise. Statutory obligations of this kind, at the same time, will increase costs in the same way as tax increases.

But I still believe that this kind of financing environmental protection is better than others, because all initiatives will then be subject to criteria of economic efficiency, and also because experience has taught us that tax increases usually survive the purpose which they were supposed to serve. Private enterprise will therefore welcome optimal flexibility in its decision making in spite of the urgent needs for investments in our future.