

Schmahl, Hans-Jürgen

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Pessimistic Economic Outlook for 1972

The Federal Republic of Germany has in the past few months been facing for the first time a phenomenon well known to Anglo-Saxon countries — stagflation. The GNP in real terms is stagnating while prices in toto are surging ahead and many businessmen are afraid of an imminent recession. In such a situation there is a danger of fears being translated into dispositions which make an economic decline certain. However, painting the situation blacker than it is seems, as so often in the past, to be a stratagem in the wage dispute. For there is much to suggest that a recession of the 1967 type will not recur.

First and foremost, there is the experience of what has so far been the only economic setback in the Federal Republic to go by. It has taught that a cyclical downtrend can be quickly intercepted and turned into another upswing by the Government's economic policy. It has also shown that businessmen who take the long view reap a reward for doing so. Those of them who did not give way to the happenings of the moment but went on investing—within the limits of their financial capabilities—secured for themselves a larger share of the fruits of the next upsurge. These two lessons have evidently been taken to heart. There are indications today that the business world is more hopeful for the medium term than for the short term. The more weight is given to medium-term expectations in

decision-making, the smaller is the risk of a recession resulting from a collapse of investment activity — which is the sole factor which could start off a real economic reverse.

Economic observers in the Federal Republic are almost unanimously of the opinion that 1972 will witness a stagnation if things are allowed to drift. But the Federal Minister of Economics has already announced that the state will release the economic equalisation reserve and pay back the sums accumulated out of the tax surcharge levied as a matter of economic policy. A sum of nearly DM 10 bn could thus be used to create extra demand. It must however be taken into account that quite a bit of this will be lost through "seepage". Private households will keep a substantial part of the repaid tax for saving, and the state will need part of the reserves for financing current expenditure because the influx of tax revenue will be smaller than anticipated. The two measures together will, at most, promote 1 p.c. of additional growth in total production. A more vigorous expansionary policy will be ruled out by the —for the time being—continuing uplift of prices. That is the great handicap of economic policy in a stagflation. While the course of production calls for a policy which stimulates demand, the abiding uptrend of prices suggests the opposite policy. If the Government takes the aim of stabilisation seriously, it must choose the dosage of expansion-

ary measures very carefully. Nothing suggests so far that it will act differently.

All in all, economic progress in the Federal Republic of Germany will therefore be slight in 1972. But this is not a matter of concern solely to Germans. In the economic cosmos of western Europe the Federal Republic occupies a kind of key position. That follows from its importance as a buyer of foreign goods. Seen from the individual supplier countries the situation is quite clear: One third of all Dutch exports goes to the Federal Republic, one quarter of those from Belgium and Austria, one fifth from France and Italy. The equation is the same for all of them: Economic slack in the Federal Republic = low exports = decline in the domestic economy and that in the interplay of economic effects between all participating countries.

Once before—in 1967—these correlations have been shown to be of substantial relevance. The export surplus ("external contribution") rose in the Federal Republic between 1966 and 1967 by about DM 10 bn. A strong rise of the surplus—by DM 6 to 7 bn—is again anticipated for 1972 on the ground that imports will show only a slight increase. The effect, if not the motive, is a kind of "beggar-my-neighbour" policy. The neighbours in western Europe will in this way help to pay for the failure of economic steering in the Federal Republic of Germany. *Hans-Jürgen Schmahl*