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Germany: Uncertainty in economic policy

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COMMENTS

Great Britain

Economic Situation Not Hopeless

After 18 months of rule by Mr Heath's Government, the British economy seems to be in a sorry plight. For over a year the long-term trend of unemployment has been steeply upward, and the absolute number of unemployed has more than doubled compared with 1970, the election year. Like the USA before Nixon embarked on his new economic policy, the UK has to overcome a phase of economic stagnation coupled with what is primarily a wage-push inflation.

Government, industry and trade unions are agreed that this stagflation is the chief cause of the present unemployment, though their conclusions differ. While the Government is constant in its efforts to spur industry on to new investments and to reactivate the principles of a competitive economy, the trade unions always come back to their demand for monetary and fiscal measures which however might lead to a demand-pull inflation and fresh wage demands. That industry shows no great propensity to invest cannot surprise in these circumstances. To make things worse, a new wave of wage demands is closing in on the Government now that the miners have gained a 20 p.c. wage increase.

Nevertheless, the prospects of economic development are not as dim as they appear. The temporary unemployment need not turn into structural unemployment because it is partly due to rationalisation in industry which by itself tends to improve productivity and the balance of trade. In a dynamic economy increased mobility of labour results in healthy growth and more jobs at rising real wages. Besides, the new Industrial Relations Act, by allowing appeal to a supreme labour court for a 60-day calming-down period, gives the Government a tool for defusing labour conflicts in the future. And Mr Heath is still left with the possibility of adopting a comprehensive incomes policy à la Nixon with control of wages and prices. In difficult time hard measures are often necessary, as Great Britain has shown to the world many times before! hg.

Germany

Uncertainty in Economic Policy

Uncertainty has become the dominant feature of political and economic life in the Federal Republic. During the Parliamentary debate on the eastern policy the Federal Government's majority dwindled to the very minimum needed for survival, so that

new elections have become a real possibility. Added to this, the tax reform, which now seems to have been finally shelved, has brought about an almost fatal crisis, and the economic trend is anything but gratifying.

As for the economic future, the views of the critics range from abject pessimism to moderate optimism. The dilemma is that overall production has been stagnant for a long time while the price trend is still upward. Giving production a boost would push up prices further, and action to moderate the price trend threatens to lead to a recession. The Federal Government is thus for the present condemned to bide its time.

On the external front the weakness of the dollar has forced the Federal Government to take action. The discount rate has been reduced to 3 p.c., the lowest level on the international scene. In addition, compulsory cash deposits have been introduced to deter business firms from borrowing money abroad. Whether the external flank of the economy can really be shielded from the dollar in this way is a matter of opinion, and the experts say — No! In the domestic sphere the Federal Government is fortunate in that the cut in the discount rate fits well into the cyclical picture. But there is a danger that, despite the reticence currently shown by businessmen, albeit with slightly optimistic undertones, the recovery may proceed faster than expected, in which case the price trend would not moderate noticeably.

This threat is accentuated by the fact that the Federal Government has announced that it will pay back the sums accumulated out of the tax surcharge, levied as a matter of economic policy until the middle of last year, in June. It could have waited until 1973. But then the problem would have been that the release of the compiled tax surcharge monies would probably have aggravated the economic boom expected for the next year. However, a release in June could strengthen the boom inducing forces, unless the monies are saved or consumed for foreign travelling. ogm.

France

Outlook for Exports Favourable

The current economic situation in France bears the stamp of a deceleration of growth, chiefly at the expense of the capital goods industries. The persistent rise of nominal consumption spending still makes for strong growth rates in the consumer goods industries, with the result that, e.g., the boom in the French automobile industry shows no