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## Economic policy: Demand for closer cooperation

Intereconomics

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### *Political Aspects*

#### **A Turning Point in History?**

There was more doubt about the outcome of the Bundestag election of November 19 than on any previous occasion. However, after the electorate's surprisingly unequivocal decision in favour of the SPD-FDP coalition, after the ephemeral exaggerations and distortions of the propagandists have died away, reality must once more be faced.

The next four years of the Brandt-Scheel government will certainly not be easy ones. The great determinants of foreign policy have been fixed, and the spectacular successes lie behind us. The task now is to extend the achievements in the East and to work again for closer cooperation with the USA under the auspices of "Europe's Year" as proclaimed by Nixon. A great task as a mediator between the USA and the EEC may fall to Federal Chancellor Brandt's share.

But for the opposition parties, too, the next years will be problematic ones. During the past three years they wasted too much time concentrating on ineffective tactics in the hope of regaining power prematurely instead of developing a truly alternative programme. The next legislation period will offer them the chance of reformulating their ideas and preparing themselves to take over again.

Brandt's first cabinet has rendered historic services by its foreign policy; the second one will be judged on its performance at home. There are those who regard November 19 as a turning point in German post-war history. But turning points have a snag: it is usually only afterwards that they are seen to have been such. In this sense the decisive turn occurred at the 1969 election which carried the SPD into government, the CDU/CSU into opposition and proved the viability of our democracy by this change in governmental responsibility. It made Brandt's eastern policy possible. In 1969, and not now, was the die cast.  
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### *Economic Policy*

#### **Demand for Closer Cooperation**

Price stabilisation is one, if not the most eminent problem of the newly elected government of the Federal Republic of Germany. Advancing over 6 p.c. during the last months, the level of price increases has reached unprecedented heights. Even more disturbing, however, is the tendency towards an increase in the inflation rate. It is no wonder therefore that many German politicians and experts are watching closely the efforts by

other countries to break the inflationary mentality through a rigorous income policy, i.e. price and wage stops.

The fascination of such measures does not lie so much in the success enjoyed in those countries; on the contrary, almost all such attempts have remained without proof of success. Their actuality lies to a greater extent in their character as a "last resort" and as an expression of a certain helplessness and resignation. The reason for seeking the solution in directive measures and controls is that the traditional steering of the economy by both monetary and fiscal policy did not bring the desired result and must be labeled a failure. Both policies influence the demand side, but in most countries inflation seems to be cost push induced. The result is that when demand curbing has been consistently practised, unemployment, but not necessarily price stability has taken place.

Nevertheless there is still some hope left, for until now the politicians—and not only they but also the economists—have indulged in the human weakness of swinging from one extreme to the other—from aggregate steering of the economy to price and wage controls. Too little attention has been paid to an intermediate solution: aggregate steering of the economy and stability oriented behaviour of the autonomous groups. This solution would imply in the Federal Republic a closer cooperation between the state, trade unions and business in the fight against inflation.  
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### *Foreign Trade and Payments*

#### **New Tasks Ahead**

What judgment will be passed on the second Brandt Government will depend largely on the success of its economic policy. In contrast to the stabilisation policy which is unlikely to yield results for a year or two, its foreign trade policy has had an auspicious start, at least as far as contacts with the East European countries are concerned. The Federal Republic is here doing increasingly well since the Federal Government, on the strength of the normalisation of its relations with these countries, managed to conclude bilaterally new long-term trade agreements. After January 1, 1972, this will be ruled out by the EEC's exclusive right to the conclusion of commercial treaties.

In regard to foreign and monetary policy however the future of the Federal Republic does not lie in the East but in the West which accounts for the bulk of its foreign trade. The western indus-