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10 Years Experience of the German Council of Economic Experts

by Professor Herbert Giersch, Kiel *

Ten years ago, in August 1963, the Federal Republic of Germany set up a Council of Experts on Economic Development. The author — a former member of the Council — makes a resumé of the ten years' experience and the problems connected with the Council.

Somebody who was himself a member of the Council of Experts during six of the nine and a half years of its existence and bore joint responsibility for its first six annual reports must approach an assessment of the Council's work with special reservations. Nevertheless it may perhaps be said

☐ that the Council of Experts has made a name for itself at home and also abroad;

☐ that it is being taken seriously by scientists as well as journalists and politicians, that in fact the experiment was not predestined to failure as the sceptics had prophesied; and

☐ that economic policy and the discussion on economic policy would have taken a different course in the Federal Republic and perhaps even abroad, especially in the sphere of monetary and incomes policy, but for the existence of the Council of Experts in this form.

Political Independence

The Council of Experts is distinguished in its design from the Council of Economic Advisors in the USA in that, as with the Economic Council of Canada, the legislature has made it independent of the government. The Council is not in the embarrassing situation of having to propagate in public a policy suited to electioneering tactics, and can therefore devote itself at all times to serving solely the scientific maxims of truth and clarity even when this may well seem inconvenient to one party or another. If it acts thus, and does so persistently, it is capable of bringing about profound changes in the conditions relating to the sphere of economic policy — changes towards the exemplar of the open society.

In an open society economic policy must do largely without moral suasion and refrain altogether from wishful thinking (adapting forecasts to the

desired ends) but concentrate on valid measures (data variation). A change in this direction only occurred late in 1966. The "enlightened market economy", which in its basic features corresponds to the open society, is not sensible of group consensus except in the sense of modes of conduct, which are in mutual accord because they have one and the same diagnosis as their premise and are orientated towards the same objectives.

This is why the "concerted action" suggested by the Council of Experts was conceived and understood as an instrument of collective reason. Whether desired or not, the work of the Council of Experts was bound to operate in this direction, temporarily at least, and this for the following reasons: For one thing, public opinion has affirmed the objectives, which the Council had been set, and trusted the independence and objectivity of its analyses. For another, the employment target was for a while so greatly impaired that the common interest of the social groups temporarily prevailed over their inclination to contest the distribution of the national product. A factor of some weight was, finally, that with fixed exchange rates monetary policy comes to nothing and fiscal and incomes policy presses forward to take its place. Incidentally, the Council of Experts has never commended the "concerted action" without qualification or as a permanent institution.

A Firm Legal Commitment

The commitment to objectives laid down by law is the concomitant of independence from the government. The state has bestowed no authority on the Council, apart from these objectives. The Council acts as an expert counsel according to a definite statutory directive. This directive imposes duties and provides — in the framework of these duties — protection against attacks on its independence. The duties and the protection are connected. The Council would automatically lose the

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protection, which the law gives it by laying down the objectives, if it were granted or itself usurping the right to vary the interpretation of these objectives from case to case at its own discretion according to the state of affairs. To guard its independence, the Council of Experts must be able to claim that its statements, including minority votes, are fully covered by statutory directive.

For this reason the Council of Experts would be put in peril if its mandate were extended. The objectives set are in any case somewhat vague for a directive to a group of persons with different views and prejudices to provide an expert opinion; and since they are not easily compatible, there is clearly room for unfalsifiable individual assessments, i.e. variants which are not based on facts or estimates.

If the Bundestag wishes to take up the matter once more, it should aim its efforts at setting quantitative targets rather than adding to the objectives. To give an example: With a current inflation rate of about 7 p.c., stability of the price level

in the meaning of the law would mean its gradual reduction to 1-2 p.c. (3-4 p.c.) in three (two) years at the most and in such a way that the employment volume must not fall by more than x p.c. This could save the Council of Experts from engaging in political appraisals, which would call its homogeneity in question. Such an undertaking however would probably be beyond the power of judgement of the Bundestag as long as it is without a committee comparable to the Joint Economic Committee of the US Congress.

Competition by the Research Institutes

As regards its independence, the Council of Experts is competing with the German economic research institutes¹, which are providing the joint half-yearly diagnoses, and it would certainly be of interest to examine in greater detail what capital each of these institutes knows, and dares, to make

¹ Working group of the five research institutes: Deutsches Institut für Wirtschaftsforschung, Berlin; HWWA-Institut für Wirtschaftsforschung-Hamburg; Ifo-Institut für Wirtschaftsforschung, Munich; Institut für Weltwirtschaft, Kiel; Rheinisch-Westfälisches Institut für Wirtschaftsforschung, Essen.

The FRG Council of Economic Experts

With effect from August 14, 1963, the German Bundestag decided to set up a "Council of Experts on Economic Development". It is the task of the Council to analyse periodically the economic development in the Federal Republic of Germany. Its assessment of the situation is to make it easier for all authorities with responsibilities in the economic field and for the public at large to form a judgement.

The Council consists of five economists, who must not be members of the government or legislative assemblies or serve on other state bodies except as university lecturers or assistants of scientific institutions. The experts — the "five wise men" as they have been dubbed — present on November 15 of each year, independently from parliament and government, an annual expert opinion on the

general economic development in the past year. Besides, they have statutory sanction for the preparation of additional reports if in certain fields a threat arises to the general economic objectives.

In the annual expert opinions the Council is held to examine how a stable level of prices, a high state of employment and external equilibrium can be ensured at the same time together with steady and adequate growth within the framework of the market economy order, and to point out faulty developments and possible remedies for them. The Council is not however expected to make recommendations for specific measures of economic and social policy.

The Council of Experts is often being compared with

the Council of Economic Advisors in the United States and the British National Economic Development Office (NEDO). Whereas the design for the Council of Experts however is primarily aimed at creation of a body, which is independent from government, parliament, opposition and trade unions, the Council of Economic Advisors is directly attached to the US President. There are also differences from the British NEDO on which representatives of government, industry, trade unions and independent scientists are working together to prepare reports on the economic situation. The design for the Council of Experts has been criticised on several occasions already: a reform bringing it closer to the British model is said to be desirable.

out of its independence. The criteria would be the instances in which correct but unpopular assessments were made, i.e. in which correct statements were made but would probably not have been made without the independence which fosters an undaunted spirit. Threats by government circles that certain research institutes would be cut off from public funds if they went on interfering with economic policy issues as previously are an indication that the Council of Experts has no monopoly in this respect although the institutes cannot see themselves protected by a specific statutory direction.

Preservation of Personal Independence

The practice of the Federal Government to choose two of the five members of the Council so as to give the trade unions, on the one hand, and industry and employers, on the other, a kind of liaison man in the Council is not wholly compatible with the postulate of independence for the Council of Experts. Admittedly, it has obvious advantages for external communications, but problems may arise in regard to internal relationship unless — as has been invariably the case, at least while I was a Council member — both these middlemen know how to emphasise their independence, also towards the outside. This is an attitude which should be appreciated, especially in the case of men from practical life who, whilst serving as Council members, are bearing a direct responsibility in economic life and are constantly facing conflicts of interests.

Annual Expert Opinions and Joint Diagnoses

In spite of the collaboration of men drawn from practical life in the first seven years of the Council of Experts the annual reports surpassed the joint half-yearly diagnoses of the research institutes in analytical effort and in breadth and depth. To hold their own in this field, the institutes would probably have to depart from their joint diagnoses of the half-year rhythms and, in addition to their full-time researchers into the business cycle, have to employ staff who would have to concentrate much more on indentifying the structural pattern according to which the West German economy is functioning. Besides, there would have to be a centre for the constant coordination of the work.

It seems to me that rather than duplicate the work of the Council the institutes should regard it as their task in future to prepare jointly an econometric model of the business cycle as regards the Federal Republic, which can stand comparison with the econometric models in other countries, above all in the USA and Great Britain. Only when such a model had stood the test of practice would

the Council of Experts have to reconsider its methods so as not to fall behind. Regarding the accuracy of the forecasts there are no significant differences, bearing in mind the dates at which they are prepared. In these matters the institutes have been helpful to the Council from the beginning.

Frank Statements

It is questionable however whether the Council of Experts has always been on time with its special reports. In this respect the institutes with their continuous reports on the economic situation have found it easier to keep pace with developments. Besides, economic policy has become more alert and sensitive in recent years — in part probably thanks to the work of the Council of Experts. Passages — sometimes no more than hints — in the reports of the institutes are nowadays occasionally causing a stir, and if they are subsequently borne out by a special report of the Council of Experts, the latter is apt to be regarded as something in the nature of an official endorsement.

The statutory ban on recommendation has never hampered the Council of Experts in commenting on economic policies as frankly as the institutes. The stipulation that alternatives for the simultaneous attainment of the great objectives should be indicated cannot be met so easily because in many instances compelling circumstances allow only of one strategy and variants are for the most part outside the scope of the law. Unlike politicians, who would sometimes like to make 2 and 2 add up to 5, the Council of Experts cannot take liberties with its arithmetic; economists at home and abroad see to that, to say nothing of the members' own conscience.

Politics and Science

In conclusion Myrdal may be quoted for a telling characterisation of the field of tension between politics and science, in which the Council of Experts finds itself placed: "Politicians must develop a tendency to live intensively for the moment and to allow the accidental configuration of circumstances at any time to dominate their perspective. They must take care to rise only slightly above the narrow short-range horizon, above the popular aggressions and deep-rooted prejudices of the public, which gives them their power. Political leadership in a democracy generally means keeping at the head of the herd wherever it is straying. — The discussions of the social scientists can only keep their level and exert a positive influence on the general trend of public opinion to the extent to which they feel in fact free to pursue the truth without anxiously seeking public approval or evading the public's anathema".