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Compelling Need for Stabilisation Measures

The prospect in Western Europe is now for an average increase by something like 3 p.c. in the real GNP. This is certainly better than the stagnation which was expected under the immediate impact of the oil shock. The feared disruption of the economic equilibrium has however occurred: The wave of price increases is as strong as during the Korea crisis in the early fifties, and the foreign trade deficits have mounted to unprecedented levels. Of the major national economies that of the Federal Republic of Germany alone has been able to elude this process.

At first the economic authorities in Western Europe took a somewhat casual view of the escalating upsurge of prices. This was because they were afraid that the oil crisis would in any case greatly worsen the employment situation. Even when the economic prospects improved, the rise of oil prices — as an outside influence out of governmental range — was still often brought up as an alibi for inaction. In the end the impetus for serious stabilisation efforts came from the aggravation of the balances of payments situation. This showed itself especially clearly in Italy and France. In Great Britain a similar dilemma will be probably only avoided by the prospect that the oil wells in the British sector of the North Sea will soon become productive.

In Italy a restriction of domestic demand was rendered inevitable by the country's rapid loss of

credibility in the international financial markets and the imposition of special conditions for stand-by credits by the International Monetary Fund. The outcome was a programme with the primary aim of reducing the huge state deficits. Announced only after another government crisis, it is in some way a jump from the frying pan into the fire, for the envisaged increase in indirect taxes and public charges will automatically through the existing index links impart fresh impulses to the uplift of wages while the — albeit selective — easing of the credit policy will make it again easier to finance the inflation. The French Government went the opposite way with its latest stabilisation programme. It raised the level of direct taxation quite substantially and stiffened the credit ceilings; investment finance was not spared either. The franc is to be saved from the fate of the lira through this emphatic shift in economic priorities at the expense of the growth target for which traditionally the first place is reserved.

The universal confrontation of the West European economies with the drastic marking-up of oil prices should really have urgently suggested a joint initiative to cope with the balance of payments problems. That this did not happen shows again clearly how far we still are from the objective of an Economic and Monetary Union. Besides, common declarations concerning economic policy have been used on various occasions as a

figleaf to cover up the absence of national stabilisation policies. So it is not surprising that countries with a stronger orientation towards stability, such as the Federal Republic and more recently France, are now calling for convincing efforts by the individual states as a first step towards joint actions.

A minimum of coordination between the national measures remains nevertheless very important. If, for instance, the basic ideas about size and urgency of the requisite mutual balance of trade corrections prove incompatible, there threatens a danger of defensive responses to the presumed or actual pursuit of beggar-my-neighbour policies. This nexus is not vitiated by the free floating of the major West European currencies against each other, for it has been seen that shifts in the utilisation of production capacities between one country and another are in the short run far more important as determinants of changes in the flow of foreign trade than shifts in price relations. This restricts the freedom of action even of a country, which is as inflation-conscious as the Federal Republic as far as its stabilisation policy is concerned. If these constraints were disregarded, too heavy a burden might be thrown on the stabilisation potential of its partners. Instead of an incentive to parallel action they might see reason to seek refuge in protectionism which would weaken the international division of labour and thus the basis of West European prosperity.

Günter Großer