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Article — Digitized Version

The priority task: Making sure of the cyclical uptrend

Intereconomics

Suggested Citation: Schachtschabel, Hans G. (1976) : The priority task: Making sure of the cyclical uptrend, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 11, Iss. 12, pp. 327-330,
<https://doi.org/10.1007/BF02929493>

This Version is available at:

<https://hdl.handle.net/10419/139431>

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regrettably started a process of contraction. The middle class policy will therefore need stressing in the next legislative session. It must not be confined to credit assistance and anti-cartel legislation but aim at eliminating actual competitive disadvantages, for instance in regard to taxation and social policy. The issue in regard to middle class policy should no longer be conservation but activation, and this must include the occupational orientation of young people.

International Ramifications

The economic developments in the Federal Republic are more and more intertwined with international relations, especially with the European Economic Community. All the expressions of lofty sentiments cannot hide the fact that the integration has stalled, and this puts the cardinal features of the integration policy pursued hitherto, such as the agricultural market order, at risk. The integration process cannot be advanced by palliatives in the shape of mutual assistance with

finance and credits. Integration must be given a forward thrust through efforts for greater harmonization, especially in financial, taxation and social policies. This is an arduous undertaking but the only one which promises success. A movement towards conditions closer to those pertaining in a domestic market may also be expected to induce action in the fields of cyclical and incomes policy where national features have until now been predominant. Coordination "from above" cannot be equally effective. And in the absence of a more active integration policy it is hardly possible to provide stronger defences against disruptive international influences.

This all the more so because the international prices are likely to continue on an upward trend even though the primary need for stable money is now mentioned more frequently. But such designs for a new international order as can yet be discerned seem to point in another direction, especially in regard to the commodity markets. The Federal

Republic will do justice to its role in the web of international relations only if it proves itself willing to give direct aid to individual developing countries and at the same time resists attempts to impose on it more indirect obligations without any assurance about the maintenance of free world trade and international monetary stability. Since monetary stability ranks so high, the international ramifications require greater powers for the central bank to act at any time as required to hold off undesirable disruptive influences. Whether the instruments used for this purpose in the past — for instance in regard to interest-induced capital movements — are adequate has to be examined in this context.

Economic policy will face difficult problems in the next legislative period. They can be successfully resolved only if the quintessential features of our economic order are not put in question and our policies concerning this economic order and its processes are based on one concept.

The Priority Task: Making Sure of the Cyclical Uptrend

by Professor Dr Hans G. Schachtschabel, Mannheim *

The Federal Republic of Germany has coped much better with the effects of the worst worldwide economic crisis since the thirties than most of the other industrial states. Although the crisis has at this moment not yet been fully overcome, the evidence of recent economic indicators proves that the Federal Government together with the *Bundesbank* has pursued a consistent economic and cyclical policy, leading the way to an economic upswing without causing the price front to break.

The real gross national product will have risen by 6 p.c. this year. The trend of consumer prices is improving steadily; the inflation rate in October was 3.8 p.c. — on the international scale the lowest after Switzerland. The D-Mark is one of the most stable currencies: in the first nine months of 1976 it improved against the other currencies by an average of 13.5 p.c. The foreign trade volume has expanded strongly; exports increased by 25 p.c. over the corresponding month of last year,

to DM 19.1 bn, and imports by as much as 31 p.c. to DM 18.0 bn. Finally, the unemployment rate, at the beginning of the year still at 5.9 p.c., was in October down to 3.9 p.c.

The demand for industrial goods shows a strong improvement compared with the preceding year. While the gains of the individual branches of industry varied (e.g., investment goods + 40 p.c., consumer goods + 15.5 p.c., basic and producer

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goods + 14.5 p.c.), the overall increase for the manufacturing industry worked out at 27.5 p.c. (July/August 1976, as compared with the corresponding months of the preceding year). New orders rose somewhat more slowly in the summer months, mainly because the exceptionally high proportion of large contracts from abroad declined, but in the home market the level of incoming orders was (in August 1976) appreciably higher than in previous months. "The investment propensity in the German economy" as a whole, the *Deutsche Bundesbank* noted in its monthly report for October 1976, has "to all appearances strengthened".

Improved Investment Activity

The key-points of economic and cyclical policy in the next legislative session emerge from this brief analysis of the situation.

The first task is to make sure of a steadily continuing cyclical uptrend. Crucial is a persistently high level of employment — full employment. To achieve it, the national product must rise at an average real growth rate of 4–5 p.c. which, given the structure of the German economy, means that investments must increase by a minimum of 6 p.c. a year in real terms.

The private investment propensity and activity as the motive power of economic and cyclical development must therefore be encouraged with a view to improving the profit situation of the enterprises. The *Bundesbank* has with its policy of controlling the money supply already gone some way to achieving this aim. It has supplied the private sector of the economy with enough money and credit without creating a fresh inflationary potential. This policy must be carried on but needs careful balancing.

On the other hand there is no need for the kind of economic policy programmes successfully operated during the seventh legislative period unless adverse cyclical developments abroad make recourse to them imperative. Future wage agreements between employers and trade unions may be expected to conform to the overall economic requirements as hitherto. They will help greatly to ensure the continuance of the cyclical upturn.

Labour Market Programmes

The preparation and effectuation of labour market programmes on the other hand seems indispensable, for the present unemployment is structural rather than cyclical. While the skilled workforce is fully deployed and some sectors are short of skilled men, unemployment is very high among the unskilled and semi-skilled and incidentally also among the older people; salaried staffs (in office jobs) have been hit rather severely, to say nothing of the grave situation of the seriously disabled. The unemployment among young people must be judged accordingly.

The situation calls for selective employment or work procurement measures. As an initial step thought must and will be given to an immediate programme with general relocation and resettlement grants for the unemployed and possibly also subsidization of firms which take on unemployed youths. In view of the problems involved in structural unemployment there should be a long-term labour market programme which would open promising prospects especially through vocational training and retraining. For it is true that the training must, as Federal Chancellor Helmut Schmidt has said, "be adjusted to the demand for trained people, for people with vocational qualifications, and to

the future structure of this demand". This whole policy complex is of crucial importance.

Forward-looking Industrial Policy

The medium-term orientation of the economic policy must be emphasized in order to give the cyclical trend permanence. This includes overall direction which can achieve the set targets only if it is based on — by and large assured — foundations of medium-term planning. The "stop-go" policy must be left behind. It creates insecurity and leads to misdirection of valuable resources.

The industrial policy must be forward-looking if it is to correspond to this orientation. There should certainly be no attempt to take the private economy under the wings of the state but the state should be available with help. Thought might well be given in this context to the formation of voluntary investment reserves by private firms in a neutralized fund. Such reserves could be put aside in boom periods and drawn down during cyclical downturns and employment setbacks.

Structural Problems

Since the early seventies structural problems have been carrying increasingly more weight in economic policy. The trend in individual industries has been showing more marked deviations from the overall trend than previously. It is therefore all the more necessary in principle to provide better statistical information and to analyse structural changes in the economy by improved methods. This is not an exclusively political task. The specialists in the industrial and trade associations and the trade unions, as well as the economic experts, must take a hand in the preparation of such trend forecasts for individual industries.

It must be an essential aim of structural policy to

□ recognize future demand and market structures in advance and bring these trends into focus for the guidance of the individual firms,

□ speed up processes of structural readjustment where alternative products or processes are internationally more competitive. Care must be taken however to provide a social policy shield for structural change. The labour market must not be overburdened in the short term. The structural change must for this reason be slowed down where a consolidation requires a prolonged process of contraction.

Continuation of the Middle Class Policy

Owing to lack of own sources of information and orientation many especially of the small and medium-sized firms find it difficult to keep themselves adequately and accurately informed about the rapid structural change taking place. But if a large stratum of independent middle class enterprises is to be retained and safeguarded as an essential element of the market economy system more is needed than a further extension of financial aid instruments (of the most diverse kinds) and their purposeful application. The advisory and information services will have to be strengthened, especially in regard to opportunities for cooperation between firms and concerning financial aid for the furtherance of more cooperative exchanges and agencies helping to prepare and act as intermediaries for cooperation projects.

Review of Tax Incidence

A review of the incidence of taxation on big enterprises on the one hand and small and medium-sized firms on the other could have a lasting effect on

economic policy from the middle class point of view. For available studies¹ show that the profit tax liability may rise to a maximum rate of 56.93 p.c. for private capital companies, 58.72 p.c. for public capital companies and 61.74 p.c. for personal firms and partnerships. The latter are mainly small and medium-sized firms, and there seems to be an urgent case for appropriate changes.

An economic policy with a middle class orientation faces a special problem in the competition of big enterprises in the distributive services, especially supermarkets and hypermarkets (mostly on the outskirts of larger communities) which threatens to oust the middle class retail trade. This is a development which has not only given rise to a danger that structurally weak regions will be short of retail trade services, but if the "integrated retail trade" — so important under sociological and communal aspects — is squeezed out, the city centres may be emptied of life. On general economic grounds and especially in order to encourage competition the aim in this respect must be a solution which ensures a balance between the most diverse distribution systems and leaves the middle class retail trade in a position in the local areas which accords with its tasks and functions.

Enlarged Foreign Trade Relations

One further key-point task shall be mentioned in conclusion — the continual extension of our economic and especially commercial relations with western and eastern countries and also with the countries of the Third World.

¹ Cf. Heinrich Weiler, Gewinnsteuerreform und gewerblicher Mittelstand (Profit tax reform and the commercial middle class), Schriften zur Mittelstandsforschung, No. 71, 1976.

The dependence of the German economy on exports and the consequent problem of external influences affecting the cyclical trend and job situation in the domestic economy have been discussed so often² that they need not be elucidated further. It should however be recalled that the foreign trade turnover of the German economy has increased considerably in recent months. This is not only indicative of a worldwide economic recovery but proof of the competitive strength of the German economy on the international level. This strong position has been maintained despite the raising of the external value of the D-Mark because German products, especially plant and machinery, are undeniably of high quality and up-to-date technical design, and the relatively favourable trend of our unit wage costs and the successes of the German policy of economic stability have strengthened our competitive position.

Greater Competitive Strength

In future, too, stress will have to be laid in economic policy on securing and consolidating the competitive strength on the international level. Beside the tasks in the field of structural policy to which reference has been made the Federal Republic must continue to practise a modern research and technology policy. Special key-points in this sphere are the exploration of opportunities for future investments, the safeguarding of power and raw material supplies at appropriate prices, the advancement of transport, information and communications techniques, and the development of new technologies to cope with the environmental problems.

² Cf. R. Sohns, German Exports and Economic Development, in: INTERECONOMICS, No. 11, 1976, p. 313.

While these various areas are basically of equal importance, adequate supplies of energy and raw materials occupy a central position. In regard to energy in particular the greatest value must be attached in future to making the German economy largely independent from foreign sources, especially of oil, and to create secure foundations for a sufficient energy supply from German sources. This must be done in the interest of general economic development and in particular in order to safeguard employment.

Intensification of Foreign Relations

The international economic crisis of the past few years has shown most clearly that there are limits to the scope of economic and cyclical policy which the individual state can pursue. It will therefore be of crucial concern to strengthen the international coordination of economic and cyclical policies, especially with the partner countries in the EC.

Almost half of all German exports go to EC countries. It is therefore in the very own interest of the Federal Republic of Germany to help to surmount the economic and cyclical difficulties experienced in EC partner countries through a common, mutually adjusted employment and stabilization policy. And here we should bear in mind something which Federal Chancellor Helmut Schmidt said: "People abroad are expecting a great deal more from us Germans than we believe ourselves to be capable of. Dilemmas of various kinds, psychological as well as economic, will arise to occupy our attention in the very near future already and with certainty during the next 24 months if not longer." This is not just a philosophical thought.

A cause for special concern is the increasing tendency in some countries to try to counter their difficulties in regard to inflation, unemployment and the balance of payments by *dirigiste* or regulatory interference with the unimpeded flow of international trade. Trade restrictions

and obstruction of free money and capital movements do not solve any problem in the long run. For this reason the Federal Republic will and must continue to direct its efforts towards the advancement of the economic integration inside the EC. But the economic relations with all the other countries, including the eastern bloc states and the nations of the Third World, also have to be intensified, and here vigorous opposition must be offered to all attempts to solve national problems by means of *dirigisme* and trade barriers.

There are of course a number of other tasks which ought to be mentioned as in urgent need of a solution. But the foremost task is to make certain of the cyclical uptrend which is indispensable for the successful solution of other problems such as the further extension of social security including in particular the financing of social insurance pensions, the reform of the health and education system and also the consolidation of the public finances, and finally the review of the effects of measures in the field of taxation.

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Large octavo, 356 pages, 1976, price paperbound DM 39,50

ISBN 3-87895-142-6

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