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Prestige versus Reason in Currency Policy

Once again, German economic policy experts did not reckon with General de Gaulle. The enfant terrible of the EEC upset the decision of the Bonn currency conference, too. The General—triumphant on all battlefields (!)—obviously interpreted a devaluation of the Franc as an open avowal of his economico-political failure. This fact and the exuberant victory celebrations of a misinformed German press contributed much to the surprising decision: the "grande nation" does not devalue!

But neither the control of exchanges nor the rigid economy measures should suffice to master the crisis and to restore the necessary confidence in the severely wounded currency. Drastical retaliation measures by other nations, which could have serious consequences for EEC and GATT, are much more presumable. A new era of protectionism is by no means any longer utopia.

But whom concern economic concatenations, if political prestige is at stake? The West German politicians, too, did not at all give an example of economic reason in their fight for the DM, when they firmly promised not to upvalue during the months until the elections. In this, however, they held a much more convincing position than the French.

Within one year only, Minister Schiller's "upswing made to measure" led the Federal Republic out of the shadows of recession straightforward to the sunny hills of a boom. Employment and production rose again; Government expenditure was not excessively high and prices remained stable. But—supported by the lax economic policies

of the USA, Great Britain and France—also the high export surplus of the preceding year continued. This aroused suspicions of a DM-revaluation. Speculation came in. Between November 15 and 19 alone, speculation capital to the value of DM 7.1 billion flowed into the Federal Republic. This was reason enough for France and Great Britain to demand energetically a revaluation of the German currency. But did not the cause of the precipitate flight to the DM mainly lie in the fact that these nations were suspected to devalue and moreover made no secret of their inclination for a control of exchanges?

So, France a few months ago demonstrated that it has no scruples regarding such a step. Now the model pupil Federal Republic was to be penalised for the carelessness of the others.

Minister Schiller vigorously struggled against sacrificing, without fight, the results of his work on the altar of international solidarity. In the hastily called meeting of the Club of Ten, he achieved his "operation made to measure": Instead of revaluation, a fiscal burden on German exports and a facilitation of imports by variation of the rates of the turnover tax refund and the turnover equalisation tax. These measures were completed by some further regulations designed to fight the wave of excessive speculation—that are, however, only of a short-term nature.

It is the initial advantage of the fiscal regulation that de facto the revaluation effect has been reached:

□ The measure directly effects the trade balance surpluses—

the main stumbling-block—and this means a concession vis-à-vis the partner states.

□ The complicated trade with agrarian products is not affected.

□ Moreover, the burden on exports and the facilitation of imports puts an obstacle to the price rise, which is the risk prevailing during the next months.

□ And finally, the measure can be varied in the short run, and, if required, be removed or prolonged.

It is quite possible that with this concept foreign trade and payments can to some extent be brought again into equilibrium—unless this concept is weakened by various waivers for different branches. In combination with the currency loan to France, to which Germany contributed most, and a Franc devaluation, this concept could have brought again a calming-down at the currency front. General de Gaulle has prevented that!

It is now absolutely possible that the DM anew comes into the fire-zone of speculators or that in the Western industrial states a roundabout of protectionism begins to turn—with consequences for the international economy, which cannot yet be foreseen. This must be avoided under any circumstances. Despite all solemn declarations not to upvalue, Minister Schiller kept a small back-door open. He does not intend to make this step "going-it-alone". A comprising re-determination of the currency parities has been overdue for a long time. Maybe, the frequently repeated currency crises have the result that this action now gains popularity and advocates.

Dietrich Kebschull