Hans Apel International economic and monetary union

Caption: On 22 August 1975 in Bremen, Hans Appel, Finance Minister of the Federal Republic of Germany (FRG) from 1974 to 1979, delivers a speech on international economic and monetary union, in which he offers his views on how to overcome the world recession.

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International economic and monetary union

Ladies and gentlemen,

In September of last year, my call for a short-term economic programme that could stand up to scrutiny, as I put it then, not only evoked a widespread and sometimes critical response from the mass media but also provoked massive parliamentary criticism from both inside and outside the governing coalition.

This was understandable. At that time, our concerns and hopes were still narrowly focused on price stability, because the shock effect of soaring oil prices had not yet been in any way digested, the inflation rates of major trading partners were continuing their rampant surge, and the danger of faster-rising prices in Germany, too, seemed far from having been averted. The indebtedness of the main industrialised nations to the oil-exporting states was rising alarmingly, and the outlook for the international monetary system and world trade was gloomy. Domestic demand, on the other hand, scarcely seemed to be posing any problems.

Today, twelve months later, we again run the risk of trying to extrapolate the prospects for the coming years from a static picture of the current economic situation and, hence, of making a blinkered assessment.

The continuing global recession, difficulties in coping with unemployment problems both nationally and internationally and a new phenomenon in short-term economic policy, namely a trough between periods of full employment that has lasted longer than at any time since 1945, have created a ubiquitous climate of doom and gloom.

We should remind ourselves, however, that the economic cycle never stands still but is in a constant state of flux; simply extrapolating the future from the present is, therefore, an inadequate and misleading exercise. And the dangers would be even greater if, by jumping to conclusions in this way, we were induced to take hasty or simply overzealous action that could only create more problems in the medium term.

Not only the politicians in our country but also those beyond our borders are afraid to trust the forecasts of economic experts, which are often by no means gloomy, to incorporate them into their policy planning and to put their faith in the self-correcting mechanisms of the market economy. One of the reasons for this reluctance, of course, is that the recovery predicted for this summer by all the national and international institutions has failed to materialise. Nevertheless, I remain convinced that the economic and financial policies of the Federal Government in recent years have created a solid basis for economic recovery.

The question that we have to ask ourselves — a question of considerable importance for the future of our economic system — is whether the economists’ forecasts proved inaccurate because of changes in underlying structural factors or whether their inaccuracy merely highlights the fact that there are limits to what can be reliably predicted — limits which are imperceptible as long as economic trends remain constant but which manifest themselves in inaccurate forecasts as soon as the boat starts to rock. Personally, I am more inclined to take the latter view, but it is too early to give a definitive answer to this question.

What can already be taken as a given, however, is that, while the effects of the international interdependence of our economies have been recognised, they have also been underestimated. We do not know how vulnerable our national economies have become in the wake of the increasingly close integration of world trade, since this integration process has not been accompanied by the coordination of the economic and financial policies of the major industrialised trading countries of the Western world. It should also be said that not even the European Communities have managed to supplement and support rapid economic integration with the parallel development of a system for the coordination of economic policies, let alone a common economic strategy. The main reason for this lies in the fact that individual EEC countries were unable to align themselves fully with the stability and growth course.

This already enables us to draw an initial conclusion, namely that there is no alternative to the quest for closer international coordination of economic and monetary policies, however arduous that quest may be and however modest its fruits. The illusory alternative of unravelling the fabric of international political and economic interdependence and increasing the level of national self-sufficiency is neither prudent nor, in the light of the huge loss of national prosperity that it would entail, is it in any way enforceable in an open democratic society. This shows the herculean task that faces the industrialised economies of the Western world as well as demonstrating how much the future of our liberal economic system and the material welfare of every individual depends on any attempt to arrive at an internationally agreed solution to the current problems in the domains of economic, social and monetary policy.

This is an abstract formula, and it might make little sense to you. You may well be asking how this coordination of international economic and monetary policy is supposed to happen and who is supposed to make it happen. Which institutions are to be the coordinating agencies? This focus on institutions will certainly not bring us any further forward. We have enough international institutions, but we have no illusions about their efficiency, which remains limited, however much we believe that they play, and will continue to play, an important role in the development of increasingly effective international cooperation.

It seems essential to me that we should continue successfully along the course that we have been following in the domain of monetary policy, the aim of which has been to unite the countries of the European Communities into an entity acting in concert and solidarity, while recognising that some of the Western industrialised nations bear a particular degree of responsibility and are therefore called upon, and indeed duty-bound, to engage in international cooperation to a far greater extent than hitherto. Besides the United States and Japan, this applies primarily to the three largest countries of the EEC — France, Britain and the Federal Republic of Germany. For this reason, I firmly support the idea that the Heads of Government of these countries should meet to debate the acute international economic problems of the present time.

So what are these problems?

I shall begin with the increasingly critical issues surrounding the relationship between the industrialised nations and the developing countries. This debate, in which the term 'North-South divide' used to feature prominently, has assumed an almost unforeseeable new dimension in the wake of the oil-price explosion. Many countries that belonged to the developing world only a short time ago are no longer numbered among the 'have-nots'; they have become relatively wealthy, and that has blurred the conventional distinction between developing countries and industrialised nations.

The ranks of the *nouveaux riches* include not only some of the oil-exporting countries; other less populous countries which export raw materials have been able to improve their standing dramatically, thanks to their ability to supply increasingly scarce raw materials, thereby initiating a transfer of wealth from the industrialised world to themselves.

It might be thought that the pricing policy pursued by the exporters of raw materials and energy sources will resolve a considerable number of development issues and rid us of long-standing problems in the field of development policy. This is a false assumption. On the one hand, among the exporters of raw materials we find numerous countries which are either already developed or are, at all events, not among the world's poorest countries. On the other hand, many of the poorest countries in the world have no exploitable natural resources and no prospect of discovering any in the foreseeable future. As energy and raw materials become increasingly expensive, these nations — the poorest of the poor — are being driven into an ever more hopeless situation. And, given that the developing countries which have only recently become prosperous are responsible to a great extent for the increasing impoverishment of the poorest countries, it is understandable that the industrialised nations, which have borne the main brunt of the wealth transfer resulting from soaring oil prices and more expensive raw materials, have started to think about ways in which the burden of development aid might be shared.

As is the case in other countries, expenditure on development aid cannot be regarded as sacrosanct during the forthcoming budgetary discussions in Germany. While due consideration will be given to our responsibility for the developing world, the Minister of Finance will have to slash the development budget too.

In the short and medium term, of course, it is more important that the industrialised nations look to the immediate future and endeavour to safeguard their prosperity by fostering their relations with each other and regulating the international economic system. In the decades since 1945, two grandiose schemes have ensured that international trade has been conducted on a more or less stable basis. One is the General Agreement on Tariffs and Trade (GATT) and the other is the international monetary system, based on the Bretton Woods Agreements and institutionally embodied in the International Monetary Fund, the IMF. These have always been two sides of the same coin, because, in a system of fixed exchange rates, tariffs naturally play a major role, and their reduction is a primary political aim. The switch to adjustable exchange rates, through which relative price levels can change at short notice, has diminished the importance of tariff barriers, although they naturally remain a highly significant factor in the long-term development of trade patterns. Consequently, the round of GATT talks on a further reduction in customs tariffs that is just beginning takes on a new dimension in that more interest will now focus on the reduction of non-tariff barriers. And much work is needed here, as you are all aware.

And so we come to the question whether — and many members of many governments in Europe see it this way — one of the maladies of the international monetary system stems from our inability to restore fixed exchange rates quickly enough. To my mind, the issue of whether our efforts to reform the international monetary system should be directed towards fixed or adjustable exchange rates or whether we should, for the foreseeable future, allow exchange rates to float within an adjustable peg system is far from a purely academic question. On the contrary, it is a matter of high political priority and considerable practical importance, because it is one of the factors that determine the direction in which our international economic and monetary system develops as well as our prospects of achieving a higher level of international solidarity. We must not, however, relapse into the errors that ultimately brought about the collapse of the Bretton Woods system — errors deriving from reluctance to obey the rules on which such a system of fixed parity depended.

I do not intend to review the many technical problems in the present context. The nucleus of the problem of whether it is possible at this juncture to initiate a resolute return to fixed exchange rates surely lies in the question of whether the leading participants in such a system would be prepared to subordinate their domestic economic, fiscal and monetary policies to the dictates of a stable balance of payments.

If it were the case that the return to an adjustable peg system compelled the major industrialised nations of the Western world to adopt an approach in which solidarity, cooperation and consensus featured more prominently in the consideration and solution of economic problems, this would undoubtedly be the best possible course of action. An adjustable peg system would free us from constant uncertainty about international monetary trends.

On the other hand, however, there is no definitive answer to the question whether a return to more firmly fixed par values would actually generate the necessary pressure on governments to adjust national economic policies. Can adjustable pegging induce the main trading nations to give up some of their discretionary powers in the fields of economic policy, including the adoption of short-term economic measures, and social policy in order to submit to the rules of a stringent international monetary system which restricts national freedom of action? Or would we live for a short time under the illusion that the international monetary system had been saved or reformed, only to slide into new international monetary upheavals that would then have worse consequences in practice than the present flexible exchange rates? Experience acquired pre-1973 does not make this an easy question to answer. Ultimately, all the participants gave up the fixed exchange rate system because of the force of circumstances. I believe that we should beware of rushing into a restoration of the old system and at least wait until we have a set of instruments that will enforce compliance with the rules of that system.

I do not have a foolproof solution to this problem. We have experienced the benefits of floating, which has enabled us to resist most of the worldwide inflationary pressures of the last few years and has enhanced the effectiveness of our national short-term economic measures. But the drawbacks of floating have also been clearly revealed to us. How can a large manufacturer of industrial exports develop international sales strategies or plan production and investment programmes if there is a risk that, a few years later, when these investments are supposed to yield dividends, changes in exchange rates will have altered the international price and cost structure to the company's disadvantage? On the other hand, would the potential for misguided investment not be greater if there were a possibility that fixed exchange rates would one day become unrealistic and would have to be abruptly and radically revised? You are all familiar with the example of the Volkswagen company, where numerous problems would have been alleviated or even eliminated if the value of the Deutschmark in relation to the dollar had not been fixed at an unrealistic rate in recent decades.

The politically motivated preservation of exchange rates, even when they no longer bore any relation to reality, distorted the yardstick that was applied to numerous production and investment decisions.

A global system of fixed exchange rates would, of course, be an economic and monetary paradise if uniform economic policies were pursued and if there were uniform price trends or indeed price stability. Like every other utopian vision, however, this ideal is not yet attainable. There is, therefore, a need to do what is practical and realistic and to do it as soon as possible, namely to revert to fixed exchange rates wherever such action is feasible. In this connection, I support the further development of the European 'currency snake' and the early inclusion of Switzerland in this monetary association, in other words the extension of this area of monetary stability to those countries whose national economic and social structures and whose ability to take tough decisions if the need arose would enable them to accept an appropriate level of cooperation, mutual commitment and solidarity, reflecting the mutual dependence and concordance of interests that have already been established.

The debate on the future monetary system naturally features in our deliberations on the future of our Western economic and social systems. In this connection, however, it is far less a matter of considering fixed exchange rates as a principle governing the organisation of world trade but rather a question of the conditions in which the Western economic system can hold its own in competition with other economic and social systems. There are fears that a persistent recession in the Western world could very soon lead to an increasingly insistent clamour for a radically new economic and social order and, hence, for a new political system, too.

If the international monetary system, however, were to be disrupted for a lengthy period by floating currencies, the clamour for a return to fixed par values would become irresistible. We Germans should therefore keep an open mind in the debate on the fundamentals of the international monetary system and avoid simply clinging to basic positions. Nevertheless, even in the most open discussion, it is essential to avoid illusory solutions, by which I mean solutions that merely remove the uncertainty of flexible exchange rates for a very short time only to create all the more serious turbulence thereafter; in the absence of a coordinated policy, the system of fixed exchange rates is untenable and will sink beneath waves of speculation.

Our strength must be invested in efforts to regulate what can be regulated at the present time. And there are numerous issues that can certainly be resolved:

For example, in the International Monetary Fund, the members' shares or quotas have to be redistributed. We have decided to double the shares of all oil-exporting countries in order to ensure that their position within the international monetary authorities is commensurate with their financial power. We have decided not to reduce the value of the developing countries' share of the Monetary Fund. And this means that all the other countries, particularly the industrialised nations, will have to accept a reduction in their share. It should be possible to solve this problem, which, I need hardly add, is not only an arithmetical problem but a political one as well.

It should also be possible to resolve the issue of the role that gold should play in future monetary policy and to determine what is to be done with the gold deposited with the IMF.

There are, of course, differences of opinion, but the differences are not so vast as to render workable compromise formulas impossible.

It would be a disaster if the one-sided concentration on putting together ‘negotiating packages’ were to block the way to compromises on individual points. This would condemn us to political impotence and would ultimately prevent us from resolving the issues that we could actually resolve. It would be an unnecessary aberration, conveying the impression that the Western industrialised nations were incapable of cooperating effectively in the realm of monetary policy. And that is of no use whatsoever to any of the interested parties, especially those that seek a return to fixed exchange rates and, for this reason alone, require evidence that the Western world is capable of a far greater degree of international cooperation than many proponents of flexible rates believe it to be.

I shall be meeting the Finance Ministers of the other EEC countries in Venice on Sunday. The purpose of this meeting is to try to devise a uniform position of the nine Member States on all the outstanding issues relating to the reform of the international monetary system. It is difficult at the present time to gauge the chances of a successful meeting in Venice. I do believe, however, that there is a considerable degree of consensus among the European Finance Ministers on monetary policy. This is particularly important, because the global recession is also a crisis of confidence. Confidence is not created by politicians’ words but by their deeds, and therein lies the importance, limited though it may be, of this meeting in Venice.

As you are aware, the coincidental temporal concurrence of the trade cycle in major national economies is far from being the only reason for the current global recession. The oil-price shock and the rise in raw-material prices were only triggers and partial causes. The main reason lies in the unprecedented spread of international liquidity deriving from factors such as congenital defects in the Bretton Woods system, the US balance-of-payments deficit and the war in Vietnam. The excessively inflationary world economic boom could not have been financed at all, had it not been for the sins of omission committed in the 1960s and early 1970s in the conduct of monetary policy. Unlike the Federal Republic, most of the Western industrialised nations were far too late in taking action against inflation in their own economies. It was easy to subscribe then to the long-cherished belief that political forces lacked the strength to wage a systematic war on inflation.

This, at least, was subsequently exposed as a fallacy. But the lesson to be learned is that any future development of inflationary surplus liquidity must be nipped in the bud. Instead of merely gazing in wonder at the present state of the world economy, we should already be addressing the problems that lie in wait.

It is not enough to beat the recession and reduce unemployment in the short term by means of massive national and international pump-priming measures and then fall victim to the vicious circle of soaring prices, shifts in international price-cost margins and, hence, in the par values of currencies and, ultimately, a slowdown in world trade as the next recession looms. And so even today attention must be focused on the problem of inflation. The recession cannot and must not be tackled nationally or internationally by means of measures that generate a new tidal wave of inflation.

We should also keep an eye on the persistent underlying risk of new cases of disequilibrium in the balance of payments of many of our Western European trading partners. We cannot rule out the possibility that the action taken to overcome the recession will create new balance-of-payments problems for some trading partners in Western Europe and for others outside Europe. It is by no means clear whether subnormal demand levels resulting from the recession are not actually the main reason for the resolution of balance-of-payments problems, more so than the successful national efforts to pay for imports by increasing the volume of exports. This may explain why the balance of payments eventually returns to a state of equilibrium.

Nor is it in any way discernible whether or not we shall be confronted with further sharp rises in energy and raw-material prices; in other words, the problems and challenges facing the Western world, and not only the West by any means, are set to continue beyond the end of the present recession.

Our current economic situation, its causes and the conditions for recovery can be neither discussed nor condemned without reference to worldwide economic trends. It is all the more astonishing, then, to observe the national propensity for navel-gazing that occasionally surfaces in the present debate on the state of the economy. An admirable exception is the latest special report by the German Council of Economic Experts, which clearly depicts the link between national economic recovery and the global economic situation.

The impression is sometimes conveyed, however, that people are too quick to turn a deaf ear whenever economists and politicians refer to the international causes of our national recession.

In the past few weeks, two schools of thought have taken centre stage with diametrically opposed views on how to cure our country's economic ills:

One group wants to induce a recovery by means of a large-scale programme of public spending. This group criticises the Federal Government's short-term economic programme for being excessively modest in scope and calls for two, three or four times the volume of public contracts, all in the naïve assumption that this could make up the shortfall in international demand for German exports — a delusion.

After several short-term economic programmes, we have to be realistic and recognise that we do not have enough public projects that are ready to go out to tender to warrant an injection of some 15 or 20 thousand million Deutschmarks in a bid to boost the economy.

This is impractical, unless we want to burden our country's regional and local authorities with insurmountable budgetary problems in the next few years. Measures such as the accelerated construction of underground and suburban railway systems or the initiation of major projects relating to the social infrastructure would impose such massive subsequent costs on public budgets for years to come that any prospect of regaining and preserving a certain degree of discretion in the use of public finance would be lost. That surely cannot be the purpose of today's short-term economic measures — a view which is fully endorsed by the German Council of Economic Experts in its special report.

The short-term economic measures of the coming months are indissolubly linked with the need for parallel action to initiate the consolidation of our public budgets. This is what will make the pursuit of budgetary policy so difficult in the weeks and months that lie ahead. Those who prefer the easy option will naturally find enough arguments in the current economic situation to shirk painful decisions and defer measures such as the reduction of net public borrowing by claiming that such action would be beneficial in the long term. This is symptomatic of a genuine dilemma in current financial policy.

On the other hand, an upturn cannot be sustained unless sufficient savings are available to private and corporate investors, otherwise the incipient recovery will tend to drive up interest rates quite sharply. In other words, the advocates of a massive short-term economic programme are not only overlooking the international ramifications of our national economy and its dependence on world trade; they are also overestimating the scope for short-term financial policies and their potential influence. Such policies have fully served their purpose as a safety net for use in the event of a sudden economic slump, but they cannot of themselves produce a 'tailor-made recovery'. Financial policies also have to be conducted with due regard for the need to reduce structural deficits in order to restore the nation's financial health in the medium term.

The second school of thought regards the debate on the short-term economic programme as a matter of secondary importance, and the term 'winter survival programme' has been used in this context. It regards a loss of confidence in the economy as the main reason for our present economic woes. There can be no doubt that many people, including business people, are concerned about the future. It is still impossible to determine, however, whether the lack of confidence derives from problems inherent in our economic system, which we could take steps to rectify, or whether it has been caused by problems in the world economy.

It is, indeed, difficult today for entrepreneurs or savers to envisage the future of world trade and of our Western industrial society. There is simmering social unrest in many countries. Long-established political majorities are starting to crumble.

Business fears the loss of traditional export markets. All of these things have dented confidence throughout the world. The West must show solidarity; it must close ranks in defence of its economic system. But those who speak of a ‘crisis of confidence’ actually mean something different. They are referring to our country. They point to the rising wage ratio and to the absence of ‘confidence-building’ measures in the Government’s economic and social policies. They say that they are disconcerted by implemented and planned reforms. To avoid any misunderstandings, let me say that I firmly support the economic and social order of the Federal Republic, which has demonstrated its superiority over other systems, even in times of recession. And, of course, it is wrong to imagine that other industrialised nations with different economic systems are any less beset by problems than we are. They experience the same problems, and sometimes more acute problems, in adjusting the structure of their own national economies in the light of new data.

Private and public investment will remain the top macroeconomic priority for the foreseeable future. Today’s investments are tomorrow’s jobs; the competitiveness of the German economy and our future prosperity depend on whether we invest enough new money in the new technological products and processes that will keep us abreast of our competitors in the international marketplace. Making this demand to any of the political leaders in Bonn would be preaching to the converted. In his government policy statement, Chancellor Helmut Schmidt referred specifically to this fundamental requirement. But the need for investment raises its own problems. What connection is there, for example, between private and public investment? Which areas must be targeted by public investment in order to ensure that private investments secure attractive returns? Where will private and public investment compete, and where will they complement each other? One question leads to another.

In our country, we have undoubtedly achieved higher pay levels than many of the countries in competition with us. There are limits on the future growth of wages and salaries, and of production costs in general, in the sense that we have no wish to surrender our competitive edge. On the other hand, I would warn against a straight comparison of our wage levels with those in other Western industrialised nations. Differences in productivity and in the supply structure prohibit such a simplistic equation.

Objectively speaking, all the talk of the need to ‘catch the thief’ that we have heard in the public discussion over the past few weeks is totally out of order. There is no ‘chief culprit’. We all bear responsibility and should not miss the opportunity to learn from recent events.

Autonomous collective bargaining on pay and conditions is one of the key elements of our country’s economic and social system. In the past, autonomous bargaining has produced better results than comparable wage-fixing mechanisms in other countries. I firmly believe that it will continue to prove its worth.

And there is something else that we should not forget: few industrialised nations of the Western world can compare with the social stability that obtains in the Federal Republic of Germany. Whatever international statistics you care to examine, you will find that there are few countries where the actions of employees and their organisations reflect such a high degree of responsibility for the general economic health of the nation. This is one of our country’s main competitive advantages.

Necessary though it may be to bring the demands on our GNP into line with the circumstances and performance of our economy, we should not throw out the baby with the bath water and allow a constructive partnership to degenerate into a confrontation that helps no one and has extremely detrimental long-term effects. We would thereby forfeit the flexibility and adaptability that are chiefly responsible for our competitive edge.

Similar caution should be exercised with regard to the current calls for a reduction of corporate taxation, for the reduction or ‘freezing’ of the public sector’s share of the national product. Nor does it make much sense to search for a culprit in the domain of public finance. The civil service, of course, has become an increasingly heavy burden on the Treasury. And there are many aspects of the civil service that are crying out for reform. But no one can seriously pin the entire blame for the structural government deficit on the civil service.

On the contrary, we cannot fail to observe that the public sector has fallen victim to a generalised inflation of expectations that is irreconcilable with our present rate of GNP growth. Besides, the oft-cited structural deficit in the public exchequer results primarily from the sustained heavy loss of tax revenue during the recession. And the dictates of empty coffers need not be entirely disadvantageous. Our task now is to cut back rank growth and to check the legitimacy of every claim. We must consider objectively what needs to be preserved — the integral and, hence, indispensable parts of our social security system — and what can be pared down and eliminated, and indeed must be eliminated, in order to prevent abuses and do away with privileges. There can be no place for taboos here.

This all sounds very straightforward, as it does in the public debate. But the devil is in the detail, and nowhere more so than in the realm of public finance. From the numerous suggestions that I have seen and heard over the past few weeks about potential savings, I have increasingly formed the impression that people believe that money should be saved in all areas except the ones with which they themselves identify. A financial policy based on the 'not in my back yard' syndrome, however, will not help us to overcome the current problems.

None of us can escape the need to curb public expenditure, even in the midst of a recession, and, possibly, to discuss moves to boost public revenue, as well as the need to take tough decisions. At the same time, we must not lose sight of the short-term requirements of financial policies.

The fact that the need to take such action has arisen twelve months before the date of an election, and a crucial election at that, does not make the problems any easier and will force politicians to stand up more resolutely for their convictions in the face of voter power.

It is, undoubtedly, too soon to specify how deep and how extensive the cuts in the public budget may be and will have to be. All I can say is that none of the politically relevant forces in our country which aspire to a say in the running of our country and which claim to be fit to assume and retain the reins of government will be able to deceive the electorate about this monumental task by making vague proposals. And none of the politically relevant forces in our country will be able to absolve voters of their own share of responsibility for the present financial problems. The financial difficulties experienced by the local authorities, all of the federal states and central government clearly demonstrate that demands on tax revenue at all levels of government have grown faster than the actual amount of revenue. And this is the first problem that has to be tackled.

As I approach the end of my speech, allow me to return to the short-term economic outlook. In the next few weeks, we shall have to begin by adopting the supplementary budget for 1975 in Cabinet. It will include another sharp increase in net federal borrowing in 1975. This reflects the current position of the economy as well as being a consequence of the increasing allocations to the Federal Institute of Labour, of the unwarranted share of the cost of tax reform which the *Länder* compelled the Federal Government to assume and of the cyclical factors that caused the volume of tax revenue to fall short of expectations. Besides, the Cabinet will also adopt the pump-priming programme, the main features of which will already be familiar to you. This programme is designed to stabilise domestic demand, in so far as financial policy can achieve that aim. Since the building industry is the main beneficiary of the programme, its measures are highly employment-intensive and will serve to ensure that the necessary medium-term reduction of capacity in the building industry is not unduly drastic. Finally, we shall have to prepare the federal budget for 1976. I have already referred, of course, to the needs and problems that we have to address in this context.

The Bundesbank will continue to do its best to create the conditions for economic recovery. There need certainly be no fear of a rise in interest rates at the present time.

The prospects for an early recovery in demand for German exports are good. The upturn in the United States has made gratifying progress and will not fail to influence the global trade cycle.

The stock cycle should also help to stimulate demand. Stock levels are so low that they are bound to generate an increase in demand.

The rest is, indeed, a matter of confidence, a confidence which translates into the willingness of consumers to make purchases and increased demand for investment among the business community. Anyone who shows confidence now is not acting in blind faith but can cite many good reasons to be confident, including the special report of the German Council of Economic Experts. The domestic conditions are in place for a strong and sustained recovery.

Some of you may regard that remark with scepticism. It is true that government economic policy cannot make people and companies at home or abroad adopt particular demand patterns. Nor does it seek to do so, because this would mean that we had a centrally controlled economy, where fluctuations in the trade cycle — and not even centrally controlled economies are entirely immune to these — would be counteracted at the cost of much of our political and personal freedom. Government economic policy can create conditions, it can set the course, but, in steering that course, it shares the wheelhouse with those who generate demand in Germany and abroad. It does have some influence on demand levels in Germany, but this influence does not extend to demand in other countries. Here, we can only proceed on the basis of reasonable assumptions, which are not unfavourable at the present time. Honesty compels me to outline clearly where our limits lie.

To reiterate one of my opening remarks, the trade cycle never stands still but is in a constant state of flux. Anyone who undiscerningly extrapolates the future from the present and lets that extrapolation govern his behaviour is bound to find that he has miscalculated.