Report from Bonn by George Gregory and Rainer Apel

Staying out of economic traps

Bankers are remarkably serene about the mark's recent drop, as Chancellor Schmidt reasserts his control.

Deutschemark exchange rates to the dollar are bumping along at ever lower levels. Our German banking friends coolly expect that the mark may even drop as low as 2.80 to the dollar before the tide changes. Yet, no one here is very nervous: as recently as one or two months ago such a weak mark would have unleashed screams of "crisis of confidence in the D-mark," oracles of all sorts would have appealed for higher interest rates, more "adjustment" to lower oil consumption, and especially more Bonn budget-slashing.

Various attempts to cut the chancellor off from his trade-union factory council and shop-steward base are also being beaten back, so the chancellor has gained significantly in his domestic political strength. There is a general recognition here that the euphoria attached to "Reagonomics" has a short lease on life, and so industry listens all the more readily to the official German Trade Union Federation (DGB) accusations that both the Bundesbank and the "five wise" economic advisers to the government were simply undermining the economy when they spread the "crisis of confidence" rumors.

Last week, Dr. Otto Schlecht, state secretary in the economics ministry, said in an interview that "the main issue for us is not to fall into the traps set by those who want us to launch a short-term demand-stimulation program, nor those pied-pipers who are recommending that we adopt a Brüning policy, like the last German chancellor before Hitler's seizure of power." Dr. Schlecht, who has been in the ministry longer than the present economics minister, Graf Otto von Lambsdorff, carries more weight with both industry and trade unions than the minister himself. Most people say that is because of his "objective expertise," a prized quality here. Actually his authority is based on his consistent track record of reminding industry that investments are what counts, especially on those occasions when industry is tempted to throw a budget- and wage-cutting tantrum.

Dr. Schlecht further stated that he would not be at all surprised if there were a 2.20 mark/dollar rate by the end of the year, although banking sources say he was being polite.

The D-mark is expected to strengthen even more, especially as long-term capital investment has begun to flow into Germany, DM 1.7 billion in June, but accelerating as people seek real economic investments to replace their short-term dollar holdings. The overall current-account deficit is improving steadily, and the government is having no problems placing its bonds with OPEC (2.9 billion in June, 3.8 billion in May). This development, Dr. Schlecht reported "will establish the precondition for the Bundesbank to get more maneuvering room for a monetary policy that leads to lower interest rates. That would be the best investment and employment program we could imagine."

Far overshadowing the hot tempers in the coalition in the wake of the Ottawa summit, when drastic budget-slashing austerity was the favorite game of the smaller Free Democratic (FDP) coalition partner, is the fact that "no one really wants us to pursue an American-style policy," as Chancellor Schmidt stated in a television interview. That fact has taken the wind out of the FDP sails, and also dampened the enthusiasm of the Bundesbank for the dictates of "co-operation" among central banks. The chancellor, reflecting the strength he has gained from the trade-union blasts against Bundesbank "independence," publicly reminded the central bank's President Poehl that he really ought to know better than to expect such "cooperation" to protect the German economy against the expected dollar blowout. Asked whether the mark should be "decoupled" from the dollar, the chancellor rather feistily replied that "the deutschemark is not even coupled to the dollar. The Americans decoupled from *us* 10 years ago," without "consulting the allies," which is once again common practice. "I was finance minister then, and Mr. Poehl was my state secretary," the chancellor recalled. "Oh, well, that was a long time ago"—but not so long ago that the present Bundesbank head can afford to disregard the reminder about where his real loyalties in a crisis must lie. Bankers have responded that the chancellor's interview was proof to them that "Schmidt is back in his element."