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Discount Rate at 7.5 Per Cent

by Dr Hans-Eckart Scharrer

In all commentaries, the attempt to interpret the intentions of the guardians over the currency in Frankfurt's Taunusanlage, the Federal Bank's headquarters, time and again culminates in the hoped-for signalling effects of this spectacular coup. Entrepreneurs, private households and the State alike have thus been emphatically called upon to reduce their respective claims on the national product to an economically justifiable volume and call a halt to the spiralling wave of price and cost increases. Since this year will bring a number of Land Diet elections, the Federal Government in its judgement of Minister Schiller's supplementary stabilisation programme was obviously unduly impressed by the deprecatory attitude of pressure groups and vested interest. It is now severely reminded of its responsibilities for the common weal, similar to the Erhard Government in 1965/1966.

The credit policy measures will however not change anything at all in respect of the present, and shortly to be expected, price increase of consumer goods. For one thing, prices are already on the run and, for another, there is but an indirect interconnexion between changes in the discount rate and the trend of prices. In order to gain a grip on prices of socially relevant consumer goods, the Federal Bank must curtail investments by way of influencing the offering of, and the demand for, bank credits.

The banks' inclination to grant new credits was al-

ready impaired considerably as a result of the drastic narrowing down of their liquidity in the wake of the DM-revaluation. The increase in the discount rate, having brought the rate of credit interest for first-class borrowers up to the exotic level of 11 to 11.5 p.c., is meant to curtail the demand for credit as well and to induce companies to defer investment projects. The slower growth of employment—in the extreme, an actual fall in employment of the capital goods industry—and the resulting slow-down in the increases of wages and salaries could, in the end, gradually lead to the desired tendency towards price stability via a scaling down of private demand.

If, in the present advanced stage of the boom it would still be recommendable at all to apply additional brakes, then, preference should have been given to the limited, and or repayable surcharges over and above the general rates of Wages, Income and Corporation Taxes as proposed by the Federal Ministry of Economics. This would have hit not one-sidedly at the investment activities so important for the future economic growth, but similarly and directly also at the overheated consumer demand. Other undesirable side effects, too, would have been avoided. As it is, the higher discount rate is likely to be taken as an excuse for substantial rent increases and thus runs in this instance not only contrary to its real intentions, namely price stability, but also lays the seed for new wage demands.

There are, moreover, social policy problems, too, because in the last resort only small and medium-size enterprises will have to bear the burdens of higher credit costs fully whereas large companies are, after all, always able to satisfy their financial requirements relatively favourably in the Euro-Dollar market.

Looking upon the entire aspect internationally, the step taken by Germany runs contrary to the tendencies towards lower rates of interest. This appears to be paradoxical particularly because of the German Federal Government, by its spokesman, Minister Schiller, having only a few weeks ago advocated the idea of a "Chequers-reprise". The margin left open for credit policies of the USA and Great Britain has now in any case been considerably narrowed by the unilateral German measures even when taking into consideration the higher rate of the required minimum reserves on foreigners' deposits.

It remains to be seen whether under these circumstances the social costs and benefits of the move taken are in a reasonable relation to each other. This will only be so if Federal Government and the Länder, in co-operating with the Federal Bank, come round to a common and convincing conception of economic policy. The discussion about a supplementation of the Stability Law is no more than a flight from the topical problems as long as there is an absence of the political determination to apply the given instruments.