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Curing the Recession—

HOW U.S. SLUMP LOOKS TO GERMANY'S ERHARD

Interview With "Miracle Man" Who Guided His Country's Comeback

The man who led Germany's remarkable postwar recovery suggests some steps now to hasten U.S. recovery from the recession.

Ludwig Erhard, Economics Minister and often called the "miracle man" of Germany's comeback, sizes up the U.S. problem this way: The slump will be moderate and brief. Big

need is a shot of confidence. Public works will help. Tax cuts may or may not. Inflation, not deflation, is the long-term danger.

Dr. Erhard was interviewed by "U. S. News & World Report" while he was visiting Washington. President Eisenhower and others sought his views about the U.S. recession.

Q Dr. Erhard, do you have the feeling that this recession in the United States will be serious or prolonged?

A What I find particularly dangerous in this recession seems to be that there is too much talk about it. As far as real facts are concerned—I mean in real magnitudes, production and employment—I don't think this recession has reached a scope which should cause grave concern. After a period of such sustained and vigorous growth, an adjustment, a consolidation of the economy is only natural and only to be expected. Therefore, I don't think that should be overdramatized.

But then the state of the economy is only a mirror of our own actions, and that is why I am a little concerned that exaggerated pessimism might not be too good for the state of the economy—if people stop trusting themselves. I think perhaps there may be too much of a general feeling of uncertainty.

Q How do you account for this feeling of uncertainty?

A I think it started with the Sputnik and now it is again fed by the recession. I think, however, that should be overcome because surely the American people are basically optimistic and so, therefore, I think that should help them to get over this initial reaction to the setback.

Also your Government has the definite intention of taking the action which is required in the situation, and to take action in the field of economic policy to accomplish what should be done.

I am under the impression that perhaps this is the time for public expenditure, public projects of all kinds—but I must point out I am not competent to hand out good advice to anybody. This is only what my personal impression would be.

Q Do you think the attitude of pessimism will end soon? A I do have confidence in the American economy and



DR. LUDWIG ERHARD

in the American people. After all, they will regain consciousness of their own basic strength and they will regain their optimism. And I believe when that has happened the recession will be practically in hand.

Something I mentioned to President Eisenhower, so I can say it here, too, is that this reaction of the American people seems to me to be another example which confirms that there is really quite a lot which the American people and the German people have in common. We both, I believe, tend to fluctuate wildly between extremes of undue optimism and undue pessimism, which Goethe expressed as a condition of being "delighted to high heaven" and then again being "sad unto death."

I think that this tendency to fluctuate between the extremes of optimism and pessimism is also found in Germany.

Of course, in a situation like this, such a tendency, such a disposition in the character and the nature of a nation can be somewhat dangerous and, therefore, I think perhaps this is the time when something should be done to influence expectations and the general mood.

Q What should be done?

A I think it is a matter of strengthening self-confidence—confidence of people in themselves. I think perhaps if businessmen and entrepreneurs under the influence of easier money would be prepared again to take risks and, say, to invest again, and if at the same time public-expenditure projects were begun, this would generate additional purchasing power among the masses and additional employment.

I believe that could be a starting point. I think it would take only a relatively small event and a small push to get

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... Better than tax cuts: "public projects to create jobs"

things going again. I think the first 500,000 people who find employment again will bring about the turn.

Q Then you don't think we have to do anything drastic?

A No, no. I don't think so. I don't think one should go from one evil into another. Also, one should not take action which would push prices up. That would rather seem like casting out devils by the prince of devils.

Q If you were shaping policy in this country, would you favor tax reduction as a stimulus to business?

A If I were responsible for economic policy in this country I would have complete knowledge of the facts and would be a much better judge of the situation.

Of course, tax reductions are part and parcel of the instruments to be applied in such a situation. But here one must ask one psychological question. Up to a certain point, increased tax reductions which give people a higher disposable income will tend to stimulate spending, and, when that point has been passed—if things have gone rather too far—that additional disposable income will not be used for additional spending but rather for additional saving, and there will be no corresponding investment to pick up those savings.

It is impossible for me to say if that point has been reached or has been passed already—that is very difficult to judge.

"GET PEOPLE TO WORK"—

Q Would other types of measures be better than a tax cut?

A I think the most suitable point would be public projects and public expenditure on orders which would create jobs, get people to work again and raise income by creating employment. This would be particularly true in this country where unemployment is feared most and is rather the trouble spot.

Our bogey is inflation, but I think the important thing is to create income by getting people back to work. That, of course, will in turn create demand. This demand is probably even increased in the United States by the growth of the population, and then if there is consumer demand from incomes through more employment, then there will also be a greater inclination to invest. The state can, of course, make investments in road building, and so on, but private-business investment will increase only in response to rising demand.

Q Does this mean that increased spending for public works would be a more effective stimulus than tax cuts?

A Well, with tax reductions, as I said, I am not sure what the response would be. That's a psychological matter. Would it be used for more spending? Would it be used for more savings? If you spend public money to create jobs and get people back into employment, they will spend.

Q Over the long term, would you say that the greater problem in the United States is inflation rather than deflation?

A Yes. I'm not really scared of the deflation in America but I am scared of inflation. I don't want to dramatize it. I won't use the word "inflation"—I mean rise in prices.

Q What do you think caused this recession?

A Well, that is hard to say. One thing that worries me about this particular recession is that it should be accompanied by rising prices. From the figures that I have seen, I understand that declining production is often accompanied by rising prices and by at least the maintenance of profits. Some of this doesn't seem to fit into the picture at all.

I am wondering if there is proper competition in those fields or, perhaps, if business isn't rather too rigid in its business policy. There seems to be some lack of flexibility

in adjusting the price policy to the general economic situation. I don't say that as reproach at all, only I'm wondering. I don't think it could happen in Germany.

Q Does this mean we don't have enough real competition?

A Of course, I would never say that applies to the whole United States economy. I am quite certain you have wide fields in the United States economy where competition is functioning properly and probably functioning more efficiently than it does in Germany. But then this doesn't seem to be true for all the industries.

If you lower your tariffs, we shall be only too pleased to increase competition.

Q Should this country be concerned by the continuing rise in wage costs?

A That is hard to say. I would have to have very precise figures and very complete facts before I could say something on that. I would need detailed knowledge of increases in the rate of productivity in the various fields because that, of course, is a very important factor.

Of course, wage increases wouldn't be a very appropriate starting point to overcome the present situation. I'm not saying that wages are excessive in any way, and here and there in various fields there may be further scope for wage increases. But it seems to me that is not where you would start in order to overcome the recession. It's not the key to it.

Q Has the setback in the United States had any serious repercussions in Europe?

A Well, as far as the general mood is concerned, yes, it has had some effect, but then mostly on people who are not really experts on economic affairs. It was rather similar to 1953-54, when the mood was affected, too. But then at that time I remained optimistic. Right from the outset of that recession in 1953-54—I never believed it would spread because that would have been against all the facts and all the trends in our own economy.

"WEAKENING" IN EUROPE—

In this recession now there is a certain weakening in European business activity. It comes to some extent from the commodity markets, where prices have fallen and the situation has weakened to a large extent. It also comes from a decreased inclination to invest, or an inclination to do less financing. But that is for export orders and that affects the export of capital goods.

But in our own country we have balanced this drop in export business by increased domestic investment, and our gross national product in the first few months of this year, in real terms, has been some 5 or 6 per cent above last year's GNP.

I don't mean to say that the American recession is none of our business, because it does concern us—it is quite important. If you keep reading in the European press every day news about the American recession, something might stick and there may be some effect. After all, there are such close interrelations between the U. S. economy and the economy of other countries in international trade and international relations, so it does matter and we are very much interested in the early overcoming of this weakening here.

There is a slogan in Europe that is somewhat hackneyed but it comes up again and again, and you still hear it now, that "if America sneezes, we'll get pneumonia."

Q Are you optimistic on the longer-range outlook for business in both the United States and in Europe?

A Yes, certainly, and I don't mean the very, very long term either.

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