

Private Memorandum

on International Concertation of Economic Action

by Helmut Schmidt

After the high-level talks on the world economic situation, which has led to a tangible improvement in the climate, what is important for us now is to agree on concrete steps to stabilize the world economic situation. Otherwise I believe there is a danger of a set-back in international public opinion.

1. Our most pressing task is to reactivate private investment and to get back to a satisfactory rate of growth.

The Federal Republic of Germany and France have therefore agreed at the end of August to put into effect new conjunctural programs, based chiefly on public investments, to stimulate domestic demand. Denmark will follow suit. It can be assumed that this course will also be adopted by the Benelux countries. The British program steers in the same direction: Its primary aim is to curb wage costs and inflation-rates, since economic growth in Great Britain has suffered primarily from wage cost inflation. The US Government should examine whether the upswing in the USA is already so secure that no further fiscal measures are necessary.

In order to encourage firms to invest, I feel it is necessary to continue the cheaper money policy.

However, the German Federal Bank is here increasingly coming up against limits set by the monetary policy of the Federal Reserve Board. The Federal Reserve Board has in recent weeks returned to a tighter money policy which in the United States has already led to a rise in interest-rates. This means for the German Federal Bank that it is not only psychologically but in particular also in practice very difficult to stick to its low interest-rate policy, which is essential to reactivate our economy, because the manifestly higher interest-rates in the United States exercise a pull on our money and bond markets. Other European countries, too, feel unable to make money still cheaper.

The Federal Reserve Board should not gear its money supply and interest-rate policies solely to American domestic considerations, but should also take more account of the international repercussions of its policy.

I suggest that the Directors of our central banks should, if possible by the end of August, agree on a co-ordinated policy to lower interest-rates. Concerted action in the field of interest-rate policy would not prejudice the strengthening of the dollar rate, which we welcome.

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3. In the present situation it is psychologically important, if the economic situation is to improve, for the Annual Assembly of the IMF to produce concrete results in a range of monetary policy questions. Only in this way can it be demonstrated that the present world monetary system is also viable in times of economic crisis.

I do not, however, believe that the United States and France will reach agreement quickly on a future exchange-rate system. We should therefore not attempt to find a solution to this problem at the IMF Annual Assembly. Nevertheless, the settlement of this question is of vital importance for the world economy and for world affairs in general, so that we should put this down as an item for discussion at the planned economic summit conference.

It should not be difficult, on the other hand, to reach agreement on the increase in IMF quotas and also, in this connection, on the fixing of new quotas. The United States could agree without risk to reducing its quota to under 20 %, as its blocking minority is not to be affected.

As far as the question of gold transactions among the central banks is concerned, I see only minor differences of opinion. In Europe no one is thinking of a return to the gold standard or of the re-introduction of an official gold price. The United States could therefore be satisfied with a global limit on gold transactions.

As regards the utilization of IMF gold there are no longer any fundamental divergences of view. The Federal Republic believes in principle that the utilization of the IMF gold on the basis of a division into three equal parts would be the right course, but it would also agree to a different basis for allocating it.

4. Before the end of this year a summit conference should be convened to discuss questions of the world economy and the world monetary system. As I see it, the participants would be the United States, Great Britain, France, Japan, the Federal Republic, and possibly also Italy.

The Conference should be prepared by the personal representatives of the heads of State and Government.

I suggest that at the luncheon of the Four in Helsinki the proposal of Giscard d'Estaing to convene a summit conference be adopted.

5. The Paris meeting to prepare the conference on oil and raw materials questions should be resumed at the beginning of October. The invitations to this meeting should be sent out by the end of August, that is, before the OPEC meeting.

The Federal Republic supports the proposal to set up, in addition to the three commissions suggested by Secretary of State Kissinger on energy, raw materials and development questions, a fourth commission to deal with financial questions related to the subjects discussed in the other three commissions. I consider that this fourth commission could deal, for example, with the repercussions of the OPEC price policy on the monetary system, the money and capital markets and the balance-of-payments situation of the industrialized and developing countries. In recent months these problems have receded into the background as a result of the recession. When the world economy picks up, they will again become more acute.

The inclusion of these topics in the dialogue seems to me the right way to ensure that the OPEC countries assume a greater share of the responsibility for the stabilization of world economic relations.

6. In general we attach great importance to a co-operative approach to the oil-producing and the developing countries. Any aggravation of the conflict leads in the industrialized countries dependent on the world market to deepening pessimism and recession. At the end of August my Government will transmit to you a general concept based on both careful analysis and on systematic discussions with the most important oil-producing and developing countries.