PROTOCOL

Welcome

Körber

Ladies and Gentlemen:

The importance of the very pertinent question to be discussed by our international Round Table this evening is underlined not only by government declarations, Bundestag motions, appeals and widespread discussions in the Federal Republic, but also by the uncertainty and tensions in many nations particularly as all this refers to the second industrial revolution now in process of accomplishment.

I thank you most sincerely that you have taken upon yourselves the inconveniences of the trip here. I owe special gratitude to our principal speaker of this evening, Professor Pütz, and to Professor Bombach, moderator of the discussion.

The wage-price problem concerns each one of us, employers as well as spokesmen of labor, and especially economists, who have been striving for optimum solutions for a long time. They all seek to determine the sequence in importance of alternative solutions taking under consideration secondary effects. Under certain circumstances, one must, in this regard, also deal with thoughts alien to the concept itself. By that I mean the wide arc spanning the distance from an understanding reached within individual interest groups over an understanding reached on a province level, or also via government interventions, all the way to a centrally administered economy.

Due to lack of an understanding of the matter and due to lack of willingness to view the economy and also, therefore, economic policies, from the standpoint of economic premises, recent-discussions have conjured up veritable phantoms of fear which, in their present extent, hardly coincide with reality. For this reason I am grateful that in this circle of scientists and experts such an objective exchange of know-how can take place, an exchange in which each one of us can speak and argue specifically, topically, and that also means without reservations. I know that politics is the art of doing what is possible, that, therefore, economic policies too are the art of achieving the possible.

To navigate toward the best possible is our task in treating today`s topic. It doubtlessly is in the interest of all of us if today`s international forum were in a position to make a metabolizable contribution toward the clarification and the solution of this problem. You will readily understand that I, as an industrialist, in the course of the years have formed my own opinion and have acted accordingly, for after all, I must act. But it is a law of courtesy that in my introductory welcome I do not advance my own opinion and that I give the floor to the participants in this Round Table who are wellinformed regarding this cycle of questions; and so I request, that you, Professor Pütz, begin your address.

Pütz

Ladies and Gentlemen:

Samuelson, the American political economist, is of the opinion that the wage-price question is the greatest unsolved economic problem of our times. Whether it is the greatest I do not know; in any event I am convinced that it is a central problem and evidently an unsolved problem specifically of our times. What does it consist of and why is it so topical?

If, for the moment, we do not begin with literature on economics but with reality, we gain the impression that not infrequently wage increases are followed by price increases, and that not infrequently, without losing sales or profits, industrialists are able to pass on these wage increases to the consumer. Now, price increases, as is known, are frequently an argument for wage demands. For this reason, during labor conflicts, the two parties tend each to blame the other for the price-wage spiral. The price-wage problem is so topical because in more recent times, approximately since 1961, creeping inflation has alarmingly stepped up its pace in many countries. This is true of the Federal Republic of Germany, of Great Britain, of Austria, but also of Switzerland, which we considered immune or almost immune. I do not know whether we in Austria have copped the prize, but in the past year our cost of living index has gone up more than 6 %.

I should like to place this problem, which is not limited to a single nation, in an overall context in which it can be understood and judged from the viewpoint of economic policies. The problem of the reciprocal effects between development of prices and development of wages must be viewed as part of the problem of creeping inflation and this again as a partial phenomena of the overall development of the economy and of economic policies. We should, therefore, call to mind some characteristics of today`s economic order and economic development in the Western nations.

We can first of all say right off that, basically, the Western nations of interest to us here have a free economy. Not only the establishment of market prices is based on the principle of freedom but so is the establishment of wages on the basis of collective wage contracts concluded by autonomous labor and management associations. As we know, this market economy has enclaves in which prices are administratively established, especially in the agrarian sector, but also in the sectors of public utilities.

The dominating form of the market - secondly - is certainly not unbridled competition. In essential branches of the economy monopolistic price setting and political price setting by the few, plays an important part.

What I - thirdly - consider as very essential is the fact that the wages set for industries by labor-management contract are practically frozen as concerns downward adjustment. The flexibility of prices downward too has essentially decreased as compared with former times. Producers adjust to decreased demand sooner by curtailing production and, under circumstances, by a change in product, than through price drops, at least for short or medium periods of time. Finally we must keep in mind that modern society is organized along lines of associations of vested interests, which exert a growing influence on the social and economic policies of the state.

Now, economic development since the last war differs essentially from development in former years. The main characteristics familiar to us all are the relatively rapid growth of gross national product and of per-capita income as well as a higher level of employment throughout. Recessions that we experience in certain areas of the economy have a mild character which detrimentally influence investments and production while consumer prices and the level of wages hardly react. Seen as a whole, this is a very favorable development for which we must pay the well-known price, i. e., that of creeping inflation. The simultaneous realization of rapid growth, full employment, stable currency and collective-bargaining autonomy appears theoretically not impossible; but in practice it is just as difficult as squaring the circle.

The central problem of our discussion today is thus the question in how far creeping inflation or rather the price-wage spiral is conditioned upon labor-management wage-price autonomy. Stated differently: is the wage-price autonomy of labor and management compatible with an economic policy that tries to bring about rapid growth, full employment and a stable currency value?

At the very beginning of the short analysis now to follow, I should like to stress that in accordance with all scientific perceptions known up to now, it appears wrong to me, to see the main cause of creeping inflation in so-called excessive wage increases. The causes of inflation are extremely complex. Therefore, the price-wage problem and its mastery is conjoined only in part with labor-management collective-bargaining autonomy. Creeping inflation, that we find in all countries, is conditioned at any given time upon variously circumstanced complexes of causes, be it through budget development, expansive and deficit, or through wage development. But as far as budget and wage development taking part in this process of creeping inflation, we do know that they can only have an inflationary effect when the flow of incomes is broadened correspondingly, or stated differently, when money and credit volume is extended correspondingly. That is the condition.

To this is added that active balances of payments for longer periods as well as high rates of investment and consumption can be causal factors of creeping inflation. In each instance, the constellation of these factors and especially the dominant cause differ from national economy to national economy. Although in some cases the dominant cause may be recognized somewhat more clearly, an analysis attempting to attribute quantitatively the long term price level increase to the various interacting causes meets with simply insurmountable difficulties. For that one reason one should be especially careful in the attempt to determine this or that contributive share. Further, creeping inflation cannot be explained solely on hand of interrelations between causes briefly intimated here. Of the essence for the deeper understanding of this process of the devaluation of the currency is also knowledge concerning the importance to which vested interest groups have attained as regards setting sales prices and wages, as well as the governments economic and social policies.

Vested interest groups have an influence - differing from land to land but already today without exception considerable - on the budget, the agrarian and the foreign-trade policies. In most states this influence has conducively lead to an increased budget and not seldom to a deficit-budget development with inflationary effects. This development, however, one seeks to justify by the so-called unalterable need for full employment and the extension of "social security". Added are the expansive effects of the defense policy and the demands of agriculture for income parity, a "noli me tangere", decreasing very much the downward flexibility of prices, not seldom having lead to increases in important price categories beyond the level of market-economy equilibrium. All this must also be considered as the effect of the influence of vested interest associations on political parties closely connected with them.

If now we return to the more specific question of the price-wage spiral, I want to state first of all that wage demands of even stronger labor unions must not per se lead to general price increases. Increases in the general level of wages, with an inflationary effect, can only be forced through under certain preconditions. The first such precondition is an expanding demand for capital and consumer goods, an expansion which leads industrialists to expect they can pass along higher wages through higher prices without loss of sales volume. The most important precondition for a wage inflation is thus a condition of high rate of use of manufacturing capacity, and a labor shortage.

The second precondition is a soft monetary and credit policy in order to carry out the expansion of credit and money in circulation required for the inflationary widening of the income stream.

Up to now the first precondition of a general increase in demand was essentially created through expanding and deficit budget policies and - as happened in the Federal Republic and more recently particularly in Austria - through a development resulting in an active balance of payments. The second precondition, namely a soft fiscal policy, up to now was greatly conditioned upon the concept that a restrictive, anti-inflationary currency policy threatened full employment.

I, therefore, should like to conclude that so-called "excessive" wage demands are not primarily the cause of creeping inflation but rather that under certain conditions they can strengthen the inflationary effect of expansive and deficit budgets and of active balances of payment. Captiously and with a large-size grain of salt it might be said: not strong unions and strong employers cause price-wage increases, rather inflation makes unions strong and management soft in wage negotiations.

Now, it is true, it must be stated that the above-named preconditions in the spheres of budget and currency policy the unions and employers associations have farreachingly helped to establish themselves. They themselves create the conditions which, later, lead to this development on the labor market in that they directly, or via the political parties closely connected with them, influence government budget and employment policies in the sense of expanding or, at least not restricting, spending. Seen thus, labor-management responsibility for the development of the general level of wages and prices lies more in the sphere of government economic policy - insofar as it influences it - than directly in the sphere of labor-market policy. This is unequivocally true of Austria.

In order, now, to examine the specific problem of the labor-management collective-bargaining autonomy with a view to the price-wage question, permit me briefly to evolve the importance of collective bargaining with regard to social and economic policies.

The idea of the right of free association of persons with the same economic interests, especially wage earners and employers, therefore, the idea of the freedom of association, was evolved at the close of the 19th Century, but did not completely develop until after the First World War. The right to collective contracts, based on the idea of the freedom of association and on collective-bargaining autonomy, only exists since 1918. According to this right, as a matter of principle, the state foregoes intervention in the setting of wages or in issuing obligatory wage regulations, and bestows on the autonomously concluded collective contracts the normative character of inalienableness binding on all.

Freedom of association and collective-bargaining autonomy are both anchored in the constitution of the International Labor Organisation and in the "Declaration of Human Rights" of the General Assembly of the United Nations, too. The "Declaration of Human Rights" states: "Except in case of war or other public emergency threatening the life of the nation, associations are subject only to those legal limitations which are necessary in a democratic society in the interest of internal and external security, for the maintenance of law and order and for the prevention of crimes, for the protection of health and morals or for the protection of rights and freedom of the others."

This declaration thus does not provide for any type of limitation of the freedom of association and collective-bargaining autonomy perhaps out of consideration for economic policy.

Without being able to give detailed proof within the framework of this lecture, I should like to say that the freedom of association and labor-management collective bargaining, I presume, in their entity belong to a free social order and a free economic order, and that they are most certainly in absolute conformance with the concept of a social-market economy. Collective-bargaining autonomy also corresponds particularly with the regulatory principle of subsidence.

From the same context of meaning it may be said that the liberal labor union and labor-management collective-bargaining autonomy, viewed historically, stands and falls with the system of the free-market economy. Goetz Brief once said very succinctly: "Free enterprise economy and free labor union are Siamese twins". There is something very true about that.

Since, now, at the close of the 19th Century and after the First World War, the states granted freedom of association and collective-bargaining, profound changes have taken place as regards the position and the power of labor unions on the labor market, and in the relationship of wage-earner and employer associations vis-a-vis the State. Originally the labor unions were purely labor-market organisations without a central parent organisation. The individual labor union, in isolation, negotiated with the corresponding employer or the employer association. Further, the degree of union organisation was, up to the First World War, so low that the labor unions, to be sure,were able to exert a certain influence on standard wage in individual sections of the labor market but certainly were not able to exert an influence on the general level of wages.

This has changed fundamentally in the last decades. In the union system a process of concentration and centralization of significant extent has taken place. That is why the power of the labor unions on the labor market has become so great that in a generally favorable level of prosperity they can influence considerably the entire level of nominal wages. With it, the parties on the labor market have become co-responsible for the development of the general price level and/or currency value.

More important, however, than the significant increase of the power of labor unions, internally andexternally, has been the influence of labor unions, the employer associations and the numerous other associations of interested groups on the state economic and social policies, which has become significant but only since the Second World War. This influence, above all, has operated in favor of a policy of full employment, an increase in social security expenditures, and subsidies of most varied kinds. This development, however, had as its effect precisely that general increase in demand which alone made possible the carrying through of wage increases with inflationary effect in collective-contract negotiations. This makes freedom of association and collective-bargaining autonomy a specific problem. Prosperity and labor shortages make high actual wages a pacesetter for the collective-contract wage development.

Payment of high wages by those undertakings in which wage costs do not carry so much weight becomes a pacesetter for the general level of wages. In such situations the employer will yield to wage demands insofar as he assumes that he can pass along higherwage costs in the form of higher prices. Not infrequently we note that industrialists forego a part of their profits because they do not want to lose workers. The word of the "hoarding of labor" is generally known.

It is also obvious that industrialists oppose a tight money and credit policy aimed at currency stability; for such an anti-inflationary currency policy makes it impossible in general to cope with mounting wage cots by means of higher prices.

If, now, in the present situation of freedom of association and collective-bargaining autonomy, dangers may arise for the value of the currency and with it for balancing the balance of payments and, under circumstances, also the stability of prosperity, in my opinion, it would not only be contradictory, from the standpoint of a free society and the concept of a social market economy but actually highly risky in view of national economic and social effects if, for the purpose of avoiding the so-called dangers of collective-bargaining autonomy, this autonomy be essentially curtailed or even eliminated. I find it surprising and very problematic if, for instance, the very Chairman of the "Joint Action Comittee for Social Market Economy", Herr Frickhöffer, recently advocated the opinion: "Collective-bargaining autonomy, as it is handled today, not only bestows on labor and management the determination of individual wages, which is sensible, but indirectly the determination of the level of wages, too. This gives private associations an authority over the public, state political, and over-all economic regulatory element of currency value, a completely intolerable and objectively fully inexpedient situation ... In the face of this we must demand unequivocally: The stability of the currency is more important than labor peace and collective bargaining autonomy."

I take the liberty of being fundamentally of a different opinion. My opinion is that for reasons of policies regulating social and economic order everything should be done to maintain collective-bargaining autonomy. The mastery of the price-wage problem - as I have already pointed out - is primarily not a question of the ways and means of establishing wages on the labor market but a question of the government currency and boom policies, and of all the vested-interest associations to which in addition to the unions and the employers associations belong other important associations, already today widely corresponsible for these government policies. If we succeed in strictly aligning the government currency and boom policy, but especially naturally the budget policy, with the goal of stabilizing both the value of the currency and the boom, then the scope for even the strong unions` wage policy threatening the value of the currency would be decisively narrowed down. If the fiscal-economic currency and foreign trade policy is not willing and able to prevent an excess forcing of the boom, then no limitation of collective-bargaining autonomy, no wage and price ceiling, will help to solve the problems.

Bombach

As moderator, it is first of all my task to thank you cordially, Mr. Pütz, for your excellent address. I should like to suggest that the discussion treat the following circles of problems.

The first would concern diagnosis.

Mr. Pütz has placed the phenomena of creeping inflation at the center of his remarks. The most variedof theories have been developed to explain creeping inflation. Although the economists are far from agreeing on a definite theory, we should nevertheless, as a basis for our discussion, pass in review briefly the varigated attempts at explanation. At the beginning there is always the question whether today`s inflation is a cost or a demand inflation.

We must further clarify whether our creeping inflation is merely a concomitant phenomenon of rapid growth or rather a prerequisite for this growth. The thesis of creeping inflation as a prerequisite for strong growth is very important; if it were true, this would result in the alternative: renounce growth in favor of stable prices, or have rapid growth and creeping inflation.

Mr. Pütz touched upon a question which also belongs to the diagnosis: in how far does the cause of our inflation lie in a rigidity of prices and wages formerly not in evidence as opposed to the situation today. If, namely, all prices are perfectly rigid in one direction, i. e., if they can only move upwards but not downwards, we must perforce have inflation. This inflation would be very easy to explain and immediately a very definite therapy would be indicated.

A further problem concerns the "pacesetter labor unions" which are made responsible for a very rapid upward movement of prices. In this case, the question naturally plays a large part whether in our country we have industrial unions or a single labor union. Israel, for example, as a very interesting case of a developing country, has a single labor union and therefore does not know the phenomena of the pacesetter unions at all.

After treating of the diagnosis we should pass on to the therapy, and in doing so follow the line of thought developed by Mr. Pütz in that we first - as a second point - treat in general the stabilization measures of economic policy.

Mr. Pütz expressed the conviction that today`s steady upward movement of prices and wages is due to the general inflationary climate, and not so much to special conditions present on the labor market.

Therefrom results as therapy, that primarily, general measures of economic policy (money policy, fiscal policy, policy on competition, foreign-trade policy) should be placed in the service of the anti-inflationary policy. According to Professor Pütz, an inflationary climate must be prevented from coming into being in the first place.

Thus results as a third circle of problems the relations of labor and management, the wage policy.

Here the institutional facts-that-be in the various countries must be considered, the objectives of the unions, the cost-of-living index clauses, if applicable. The problem of collective bargaining will have to be discussed. Also, as already mentioned, the question of the pacesetter unions belongs to this circle of problems. Wages based on productivity - an idea which does not appear to be quite dead yet judging from recent newspaper discussions - will be mentioned, and certainly also compulsory payroll investment plans and plans to spur savings in general.

Let us, to begin with, start with the first circle of problems, with diagnosis.

Knapp

I would be very glad to agree with the diagnosis of Professor Pütz if I saw a possibility to bring the example of England into accord with it. There, the surge upward of prices was greatest when growth had come to a standstill: in the period 1956 to 1958 industrial production only increased a total of 1 %, cost of living, on the other hand, 12.3 %. In the years 1959 and 1960, in reverse, industrial production increased 12% and, as a result, cost of living only increased by 2 %. That, I believe, is more than just an interesting exception, because in Austria too we feel that we are approaching this "English disease": we have had the greatest price increases for about a year, that is, exactly since the point in time when growth of industrial production practically came to a standstill.

Can we therefore still make do with the pattern of a demand inflation? If these observations are correct,that`s a typical case of a cost inflation: in a period of slowed-down growth, wage demands of labor unions and planned profits of management do not drop fast enough. Then, however, a restrictive policy goes into effect which does push back the rate of yearly wage increases from 7% to 4%, but also slows down business expansion, so that the rate of increase in production drops from 6% to 1 %. Ergo, it increases inflation.

Bombach

Thank you, Mr. Knapp. You immediately took up the problem of growth and price stability. Your argument, however, is not in opposition to the thesis of the demand inflation of Mr. Pütz; for demand inflation simply means, as you also said, that supply exceeds demand. The question is only whether demand is too great and supply too small. That is one of those famous $ 64,000 questions. I recall the very beautiful story of the soldier being fitted a new cap, who went to his sergeant and said: "The cap is too small", and the sergeant answered: "No, your head`s too big".

In Bale we are carrying on a statistical investigation on the connection between price increases and rates of inflation. In doing so we have come to very similar observations to what you just cited. It is by no means true that high rates of growth are always correlated with high rates of inflation. Often, at that, unequivocally negative correlations result. All imaginable constellations appear possible. Naturally, time lags play an important role.

Pütz

I wasn`t called upon to do so, but I should like to elucidate. I am not a demand-inflation theroretician but I merely place main emphasis on demand. The explanation of the phenomena which you do not find explained in the English and Austrian example lies, as far as I am concerned, in time lags. Business expansion resulting from, for instance, the budget or the balance of payments and leading to increase in currency circulation or expansion of credit, only affect the price level after one or two years, i. e., demand is so great that under certain conditions, by the time it is satisfied, we already have stagnation or no longer such rapid growth. But what you call cost inflation cannot as such become effective if the conditions for it are not given from the currency and the credit side. As far as I am concerned the point to consider is always the primary. The English cost inflation would not have happened either if in the sphere of economic policy, which I consider primary, there had not been a retreat. Do you see? That is decisive.

Knapp

But precisely that very thing is impossible in England.

Pütz

But you do know, don`t you, that first of all there has to be a widening of the income stream, or else there can never be an inflation.

Andreae

I too would like to think that the question of demand plays an important role in this case, but one should not slight the cost side, at least as far as the sequence of events is concerned. If monetary conditions do not permit it, there will be no price-wage spiral, which I would prefer to call the "profit-wage spiral", in order to characterize the two income desires which here oppose each other. But I believe that the beginning can be quite different. Let us assume that a strong labor union says: "Let`s simply demand a larger share of the national income". If in such a case monetary policy remained firm, there would result unemployment and a serious shock to the nation as a whole. Therefore, monetary policy will not remain firm. But the cause was the decision of the labor union.

This, in turn can either result from the members pressing their officials. The officials, despite knowing better, must then give way. This is especially true when the unions have relatively few members, i. e., when the size of their organization is small.

But the movement can also begin with the officials, who initiate such a struggle for ideological reasons.

Everything else then develops from these basic concepts, so that I should like to say: basic for such inflations - but I should not like to be misunderstood in that it appear that I want to put all the blame on the labor unions - appear to me to be the concepts of the various groups regarding what their income should be within the nation`s economy. If these concepts regarding income change in structure and if a corresponding political power backs the group in question, then it appears to me possible more or less to force monetary policy to create the prerequisites for the widening of the income stream.

The concepts regarding income stand at the beginning. Accordingly it is a question how strong the state and monetary policy is, how strongly these authorities stand fast in the face of the inflationary trend emanating from the concepts regarding income. For it appears to me quite normal that the sum of all concepts regarding income is greater than national income.

Bombach

True, it corresponds exactly to the percentage of inflation. But with it you have touched upon an important question, the question of the sequence in the process of the steady rise in wages and prices. Where does it start?

Is the rise in wages the trigger, or the rise in prices? What is the time sequence? Or, to express it in the formulation of Mr. Andreae: is it a wage inflation or a profit inflation? The time sequence has been analysed and the attempt made to draw causal conclusions from statistical material. I do not know of any convincing results despite the application of complicated economic measuring methods. We are wont to speak of the steady upward movement of prices and wages as an endless screw. But how is the beginning and the end of such a screw to be identified?

That, however, is a problem leading us into the next circle of problems. In the nation`s economy, in which all, even the government budgets, are fighting with all means at their disposal for a higher share of the national product, it is a very difficult thing to find someone who will suddenly listen to reason. Probably we too shall come to the conclusion that it is only possible, if all, or at least the big ones, do it simultaneously. Otherwise, the one who is ready to listen to reason will only be cheated by the others. As all know it, no one wants to make a start.

Pütz

Mr. Andreae, I feel that your contribution to the discussion is a more detailed formulation of my ideas. When you say that the desire for income is the driving force, then this is precisely what I called a demand inflation and not a cost inflation. These desires for income result in the public exerting pressure on the government via parties and politics. It manifests itself in subsidies, in increased social security, in a larger budget and more public expenditures. All these are factors of buyer demand.

Andreae

In other words, the desire for income expands the demand, which emanates from the government?

Pütz

Yes, for all I care from the sphere of wages, etc., too. But I did not propose a one-sided thesis of demand; I only mean - and your generalization regarding income supports my thesis - that the inflationary process is not exclusively or primarily to be understood as coming from the labor market. That is valid too of the English example. You can, of course, state that behind all these processes is always the desire for more income.

Frisch

First of all a preliminary remark. We should clearly differentiate between expansion and productivity.

Through immigration of foreign labor and through extension of working hours, the gross national product can be increased, productivity remaining constant, and do so without justification for increased wages. If wages are not to lead to inflation, it is not enough to increase the gross national product, rather productivity per man hour must be improved.

Regarding the topic itself, it appears to me to be desirable to avoid over-systematizing and to point out the following:

1. The sphere of services is a source of inflation because it can only achieve limited progress in its productivity. However, it wants to share in the general increase of purchasing power so that its wages and profits rise more rapidly than productivity would permit. As a result they have an inflationary effect - by the way, a chain reaction, - because the fact that services cost more is noted immediately by the man in the street and impels him to make new wage demands. The fact that in the industrialized states a shortage of supply may be noted in the sphere of services, makes things more difficult.

2. There is not necessarily a relationship between the power of labor unions and wage inflation. The French unions are conceivable weak, especially in private industry, where wages are mostly negotiated on an individual plant level, which does not prevent these wages from outstripping productivity. The so-called pacesetter unions are less decisive than the equalitarian principle, which is spreading more and more. No worker wants to earn less than his fellow worker. It is getting increasingly difficult to explain wage differences existing between branches of industry and between the individual plants. There reigns a general pull toward an automatic social levelling upwards. In France, for instance, they are toying with the idea of a so-called national wage policy which is to divide the overall gain in productivity on the basis of the principle of equality. However, they shrink from realizing this theory because a national wage policy would inevitably lead to total government wage and price controls.

3. The social-psychological factors should not be overlooked. Thus one could observe repeatedly that precisely during a recession wage demands were put forward strongly, and the reason was that in the preceding boom period, workers had optimistically incurred debts, and now had to pay these debts at a moment when a recession robbed them of the possibility to work overtime. Added hereto is a further social-psychological factor, the conviction of the masses that they have a right to a steadily improving standard of living. In this case all arguments in favor of the national economy carry no weight. Let us also not forget the equally widespread demand for safeguarding income, i.e., the political primacy of full employment. If we are prepared to guarantee full employment then we must also pay the price for it. This means, that it is no longer a question of the axiom of creeping inflation but of the extent of creeping inflation at any given time.

4. In my opinion there is also not always a logical relationship, in accordance with axioms of the national economy, between wages and labor supply on the one hand and between wages and consumer demand on the other. Significant herefor is the example of coal mining, where labor continually demands higher wages despite overproduction, and not only management but also the governments yield, despite the fact that not even a long drawn out strike would place a burden on the economy supplywise. One must face the contradiction in that mine owners have two complaints, that they cannot get rid of their coal and that they cannot find workers. If one thinks about wage inflation, one must not leave out of consideration the flabbiness of modern- society, no longer mustering up the courage to stick out a strike.

5. Formerly industry and "the haves" were accused of not being sensitive to inflation, and of earning money with price increases. Today an added factor is that workers fear inflation less. If one disregards precipitate currency devaluation, wages almost always increase faster than prices. Furthermore, in an increasing measure, the worker is obtaining ownership of real estate and securities, i.e., his capital is invested in the form of savings that maintain their value. In Germany there is the added factor of the

dynamic pension. In the face of a dwindling risk of inflation, the worker can thus concentrate completely on present prosperity.

A final word regarding monetary policy. It is not per se sufficient to determine the volume of credit. The great imponderable remains the time rate of money circulation. In France, repeatedly, the prognoses regarding policy on booms and recessions were upset completely because people unexpectedly either put their money into their pockets or suddenly placed it in circulation against all law. In addition to savings activity that can be measured statistically, there is the uncontrollable hoarding of paper money. If under these circumstances a government relies upon classic credit and economic policies, it will get many an embarassing surprise.

Bombach

You have presented a wealth of ideas which will continue to occupy us the whole evening. Naturally, we must not say growth of production but of productivity. But I start with the fact that in a majority of the nations today labor potential can only be augmented very little so that growth of production and growth of productivity are practically identical. This, for example, did not apply in Germany for the period prior to August 13,1961 when we still had the great influx of workers from East Germany.

Very important are the "time lags," i.e., the fact that certain concepts regarding income are impressed on the minds of men; that men, unlike former times, do not become accustomed to, and want to stabilize, certain levels of income, but that today they want to stabilize the rate of growth.

I expressed it once like this. The people have learned to think mathematically in the sense of first derivatives. They stabilize the first derivatives, i.e., the rates of growth. We must only take care that they not suddenly think of second derivatives, i.e., the increase of growth. That, naturally, would be very precarious. It surely is a fact that the people have grown accustomed to a growing income and anticipate this growth in their plans for future spending. That, I guess, is why you previously said, Mr. Frisch, that the people, in anticipation of future increases in income, incur debts which they are forced to pay later. In this, naturally, inertia against conforming to steadily changing economic facts plays a decisive role. One cannot live beyond one`s income ad infinitum. If given facts change, then one day one will have to change one`s habits.

A very important question for wage policies and for the attitude of mind of the opposing sides in collective bargaining is the time required until people notice that constellations have changed. Germany is a very good example for this, that first, in times of rapid growth in productivity wage demands remained relatively moderate. Suddenly they noticed that they could get more. Unusual progress in regard to productivity no longer appeared as only a passing phenomenon; the "tower of foreign exchange" was interpreted as unused chances for expansion. After the Federal Bank published its paper on wages, the labor unions even gave notice of "pent-up demand".

Today we note strong increases of nominal wages with a slowing down of the growth in productivity, wage demands which - surely unconsciously - are based on previous expansive processes. In the United States, the development was similar, only with a noticeable shift in phases.

Neuhauser

I should like to interpose a remark for the sake of the clarification of terms. Do we not perhaps make a terminological mistake by comparing cost inflation and demand inflation? Every inflation is a demand inflation; every inflation starts as a discrepancy between overall demand and overall supply. Therefore, every cost inflation is also a demand inflation, in this meaning of the word.

Bombach

A number of theoreticians claim that demand was caused by higher wages which had been conceded previously. The conceding of the higher wages is thus said to be the real cause of inflation.

Neuhauser

But the immediate cause in every case is demand.

Bombach

I agree with you completely. But no one has really succeeded in explaining the cause of an inflation. Although we know the weaknesses of terminology, we must nevertheless use it for our discussion. We shall not be able to find a better terminology this evening, either.

Brechling

I should like to refer to a few points regarding questions touched upon previously by Mr. Knapp and Mr. Frisch. Professor Pütz mentioned in his keynote address that the problem of inflation cannot be treated quantitatively. I should like to contradict. In my opinion an empirical method promises to be more successful than a purely theoretical one. There are theoretical patterns both of the demand inflation as well as of the cost inflation; however, theory alone cannot tell us which type of inflation is causing us to worry at the moment. This question can only be answered through empirical studies.

At least in the States and in England scientists have tried to treat the problem of inflation quantitatively. I should merely like to refer here to the work of L. A. Dicks-Mireaux ("The Interrelationship between Cost and Price Changes 1946-1959," Oxford Economic Papers, October 1961). He tried to explain price and wage changes simultaneously by a two-step regression-analysis. The following results of this economic study are of interest.

1. Actual wages react very strongly to changes in the labor market situation and relatively weakly to changes in the price of goods.

2. Prices of goods react weakly to changes in wages and relatively strongly to changes in labor productivity. The more rapid the growth of labor productivity, the slower the rise in the price of goods.

Thus inflation could be avoided so long as lack of demand for labor limits wage increases to the increment of productivity. Now a further difficulty appears. Empirical studies in the States and in England have shown that growth in labor productivity

is greater the greater labor shortage is. The reason for this finding lies first in a decrease in the hoarding of labor and, secondly, in the substitution of capital goods for labor in times of strong demand. Thus, slowness of actual demand not only reduces wage rises but also limits increment in labor productivity, and for this reason it is a two-edged sword.

In summarizing I should like to describe the empirical analysis of the problem of inflation as follows. Actual wages are determined to a maximum extent by the situation on the labor market (i.e., supply and demand). On the other hand, prices of goods react mostly to costs, which are composed mainly of actual wages and labor productivity. Rise in real demand causes an advance in labor productivity but also greater advances in actual wages and that is the reason for increasing prices of goods.

Finally, I should like to comment briefly on another thesis presented by Professor Pütz. According to his opinion a restrictive money policy can effectively contribute to keep inflationary tendencies within bounds. The experience in England has shown that the rate of circulation of money can be so elastic that as an anti-inflationary instrument of money policy it can only be given a subordinate position.

Küng

Mr. Pütz having placed the main weight of his exposition on demand, I should like to name another, a complementary factor, a factor, that appears to support the view that we must not lose sight of cost inflation completely. I know that the result of a series of investigations points to the fact that in general labor unions were not in a position to drive wages beyond that measure which would have resulted anyway. Rather, on the contrary, that definite limits were set union power.

But this appears to be in contradiction to various facts, for instance, the fact that in individual nations - after all - wages do increase beyond the measure of a concurrent increase in productivity. I cannot rightly conceive that all by themselves and of their own free will employers concede such wage increases. Certainly they become pliable in a corresponding economic climate. But the impetus will nevertheless emanate from the labor unions and from income demands, and employers will give in because they are certain that they can pass along the cost of higher wages granted.

In this connection I should like to present an extremely characteristic statistical example for the fact that that wages can increase even in times of considerable unemployment. For this purpose I quote a few sentences from the investigation of Mr. Ross, an American labor economist. "Between May, 1953, and May, 1954, the number of production workers declined from 834,000 to 604,000 (sic!) in automobile manufacturing, and from 561,000 to 487,000 in basic steel." (As may be seen, this is quite a considerable reduction in the number of persons occupied in these branches of industry.) "Likewise, average weekly hours decreased in both industries, but wages were advanced in 1954 as they had been for many years past. Apart from small auto companies, no employer even bothered to argue that increases should be foregone, or that rates should be cut, because of declining production and employment."

Thus it has evidently become the vogue that wages do increase and must increase every year without any regard for the employment situation. That appears to me to speak for the fact that there is a structural elementatwork. I should like to characterize it as an "imbalance of power" - imbalance of power between the demand and the supply side of the labor market.

On the demand side you have the individual producers. They know that the anti-trust policy has been implemented for decades, that trusts are scrutinized quite severely, thus, that price setting is not, without further ado, a private matter of the individual manufacturers. On the supply side of the labor market you have organized labor not subject in any manner to this anti-monopoly and anti-trust policy. Evidently here exists an intereference in history. One has become conscious of the pernicious-ness of monopoly on the products market and something has been done about it, for a long time. That, on the other hand, the monopolies on the labor side can exert at least as great an influence, especially in times of a basic inflationary mood, regarding this, there evidently is not as yet sufficient clarity. It is precisely this that I should like to place in the center of the discussion under the catchword of "imbalance of power," as an additional element which does appear to speak for the fact that on the supply side, too, the element of the cost inflation is of considerable importance.

Bombach

This problem of the imbalance of power and the American example you cited do indeed give us something to ponder. The course of the strong recession of 1957 was similar. At that time there also was a steep drop in employment while wages increased rather more at first.

But there always remains my counterquestion, in how far this is merely a case of inertia in adaptation. How long do the wages increase? Would they continue to increase if there were a real depression, a lasting depression at that? At present we have no precedence for that. There remains the question: how long would wages continue to rise if the inflationary pressure of demand actually stopped for a longer period of time and compensatory measures were not again introduced immediately, on which both parties already speculate.

At the beginning you interposed an important question, the question of the interrelationship between labor union power and wage advances. One thesis that was advocated states: basically, the existence of unions and their policies has not changed actual development of wages very much. That would mean that the development would have been more or less the same as it actually was even without labor unions.

But here one must differentiate clearly between two things. On the one hand the thesis that union policy did not essentially change the distribution of national income. This is something entirely different from the thesis aiming at the level of wages. In other words, one can have approximately equal shares in the national income at each possible degree of inflation.

Altmann

Must one not ask as a matter of principle whether labor unions conceive their wage policy at all from the standpoint of a market economy?

If I understood Professor Pütz correctly a while ago, he thought that one could presuppose "good market-economy judgment". But labor unions - if I have not been completely misinformed - at least important industrial unions do not want to carry on with the market economy. They do not want a market economy. I say that without a trace of contentiousness.

Pfleiderer

I believe, in this circle so variedly composed, it would be of value if you, Mr. Bombach, were to explain what is meant by the two generic terms "cost inflation" and "supply inflation".

This pair of terms is very useful in order to clarify at which points of the economic circulatory system new data can be fed in at all, data with a revolving or self-reproducing effect. In the case of this pair of terms, I presume, it is not a matter of alternatives, one excluding the other. Rather, under certain conditions, both sources of inflation go into effect side by side; that means, perhaps concurrently on the cost side, i.e., wages, as well as on the demand side principally because of investments made by management, new data is fed in. This data has to be assimilated by the circulatory system and can lead to self-reproducing price increases.

Bombach

We actually have already answered your question. The concrete question Mr. Pütz also asked is this: in how far does an inflation of demand, i.e., a surplus in the total of investments, private consumption, government consumption and export surplus over and above overall supply create the climate for an inflationary movement of prices and wages, i.e., for the setting in motion of the wage and price spiral? If you look for the starting point on the side of wages, the answer can be given much more easily. If wages increase, demand will be bound to increase; unless people save their extra income. But that is a point to which we shall revert when we come to speak of therapy. This fact is used today as the basis for certain new plans, such as the plan for compulsory savings, compulsory payroll investing, etc.

Basically, both cost inflation and demand inflation are the expression of an imbalance in the economy. In a balanced situation neither of the two can exist. The demand inflation is a clear case of imbalance. Cost inflation cannot be classified as clearly; it can be imbalance but can also be lack of balance such as we have on the markets of bilateral monopoly. If the market is "a priori" without balance, then there can be ex definitione no imbalance. In this case the question whether there can be both forms of inflation must be answered in the affirmative.

Pfleiderer

Yes, side by side.

Bombach

Side by side, naturally.

Linder

I merely wanted to point out that the terms cost inflation and demand inflation can be used quite well in actual practice although viewed from a purely theoretical perspective, this distinction cannot always satisfy completely; on the other hand, in this case, inherent in naming the type of inflation is a characterization of the causes of the inflation. One must be aware of the fact that inflation as it presents itself on the indicator of price increases, i.e., on the price indices, can be released by a whole series of causes, and the contribution of individual causative factors can turn out completely different in accordance with the concrete economic situation of the particular moment. If, for instance, inflationary impulses, in their final causation, come into being through corresponding changes in the structure of production costs, one would, I imagine, be justified to speak of a cost inflation.

L. Robbins, the British economist, for example argues as follows: If wage increases lead to a drop in employment (management expects conditions to deteriorate), i.e., if in spite of wage increases overall income does not grow anymore, this has a detrimental effect on overall demand, so that, to avoid a deflationary development, the government might see itself forced to go on stage with expansive credit and fiscal policies containing the germ of an inflation. In this Robbins recognizes the phenomenon of a "wage inflation", which, of course, only represents a variation of the cost inflation. If, however, wage increases make an appearance without thereby detrimentally affecting overall demand, then the volume of production can obviously be sold at higher prices; in this case, demand is strong enough to absorb the production volume at higher prices (no adjustment via a drop in employment) and for this reason, it would be a demand inflation. In the first instance, one would have to refer to the experience in England: increasing wages and prices despite unemployment and unused capacity combined with a public credit and fiscal policy having a slightly expansive effect. In the second instance, perhaps one could refer to the experience of Switzerland.

Brechling

One would have to add to that, that one does not obtain a guarantee for price stability if, through a rigorous wage policy as in the case of England, one attempts to push wages back to agree with the increment in productivity - far from it.

Bombach

But now you are right in the midst of therapy already - with wages based on productivity. We shall have more to say about that later.

There are foci in the national economy in which one can clearly localize price increases, for instance - in many countries - agriculture. One speaks of the "green front" and, if I remember correctly, Mr. Frisch already mentioned the "black front", namely, coal mining. Behind these obvious examples stand definite political concepts. We must not, of course, forget these things, for if the number of "fronts" increases, it might possibly thwart every sensible anti-inflation policy.

Frisch

Mr. Bombach, do you take demand inflation to mean the classical concept of lack of balance between demand and supply? Or also the modern concept that, after all, people earn so much money that they don`t care about prices ony longer? I mean spending liberality growing from suddenly increased incomes and leading to a situation in which price is no longer checked or watched carefully. This, in my opinion, carries much weight today.

Bombach

But they are not, after all, the same symptoms.

Frisch

No. I believe that today, for instance, demand can still be satisfied completely in the consumer goods sector, and almost completely in the service sector. People have so much money, that they don`t care how much, for instance, the plumber charges. They just pay. I reproach the economists that they look too much at statistics and too little at people. The moment the housewife no longer shops around, when people earn so much money that a penny no longer matters and, furthermore, they believe that their social status depends on how much money they spend, then prices go up despite the fact that demand is satisfied.

Bombach

I can only see complete support for the thesis of Mr. Pütz in your argument. Purchasing power is so great that the people no longer see any reason to balance out the price and what they get for the price. In my opinion, this spending liberality described by Mr. Frisch is not the cause of today`s demand overhang but rather a symptom of it.

Frisch

Yes, but where does the demand come from?

Bombach

That, precisely, is the topic of our discussion: what are the causes of the continued demand overhang? When we begin to discuss therapy, the question will be: which methods stand at the disposal of economic policy today for influencing the overall demand effectively?

Pfleiderer

I believe this discussion shows how the term "demand inflation" is liable to be misunderstood. For what Mr. Frisch refers to is valid for every form of inflation. Of every form of price increase one can say that it indicates a disproportion between supply and demand. It, therefore, is not something that differentiates a distinct cause of inflation from another. In this regard, a "cost inflation" is also a "demand inflation", as the wage increases from which it stems lead to an increase in consumer demand going beyond the concurrent increase in the supply of consumer goods. As against that, what we mean by the pattern of the "demand inflation: is something entirely different, namely, a price increase which principally stems from certain management decisions on the basis of management`s range of investments.

Bombach

The cause must not necessarily lie with management. Expansion of exports or government spending must also be considered. Finally, the social security budget must not be overlooked.

Pfleiderer

That could be.

Bombach

If our diagnosis is "demand inflation", we necessarily are thinking already of definite forms of therapy. A demand inflation should logically be healed by curtailing demand and that by way of fiscal policy, money policy, foreign-trade policy, etc.

If, however, our diagnosis is "cost inflation" or "wage inflation", then, by doing so, we express the conviction, don`t we, that under the given situation, measures aimed at limiting demand probably would not be effective, rather that autonomous forces are at work. Attention will be directed to the collective-bargaining policy, and a call for curtailing collective-bargaining autonomy might even be voiced.

Neuhauser

Yes, but not for the reason that measures of currency policy would not be any good in fighting inflation.

Bombach

There, after all, is where opinions part company. There is an imposing group of economists` who are of the opinion these measures would have practically no effect at all today any more.

Neuhauser

They must be effective if there is no money to pay higher wages.

Bombach

If the Central Bank does not make funds available? I cannot quite imagine how this would look: the Central Bank does not make available the necessary funds with which employers pay higher wages. Where, at any time, has a process of steady price rises been halted in this way?

Knapp

The error, I believe, is in the diagnosis, namely in your definition of balance: a surplus of total demand over supply is not, by definition, thinkable in an "open" economy because such a demand overhang would necessarily lead to an import pull. If there are no import barriers of any sort (high tariffs, etc.) a balance-of-payments deficit will replace the demand inflation.

Bombach

No, one can`t go so far as to claim that.

Tacke

I oppose, first of all, the continued use of the word inflation. I do so not because I am not able to differentiate between a so-called creeping and a galopping inflation. But in the Federal Republic, we conjoin certain concepts of total currency devaluation with the term inflation. For this reason one should use this word more sparingly. I also do not go along if the whole is to be divided into demand, cost, price or wage inflation.

We begin with the thought that the economy should grow, don`t we? The economy is to raise the overall standard of living. This necessarily triggers impulses which lead to a continued stimulation of demand and needs. We do have daily proofs in the Federal Republic, don`t we, and as far as I am acquainted with conditions in other countries, there too, to what extent, with which methods, with which systems and with which means demand is aroused and stimulated. That must lead to an overhang of demand, at least at times. On the other hand, measured by supply, there can be wage overhangs at times. Demand overhangs not only trigger price increases but also simultaneously the stimulus - and the whole system is based on it - for new and more investment in order to meet increased demand with a greater or a varied supply of goods. So we note a reciprocal effect. The moment stimulus for further investment due to greater demand no longer is a given fact, we necessarily would have changed situations. After a certain period of stagnation, there would begin a recessive movement.

But now wages on the whole are a supporting element of demand and that in connection with the fact which Mr. Frisch analyzed as the need for an ever better and higher standard of living. Who does not have this need? Thus, here lies something inescapable in an order which we do not want to regulate by just merely not letting demand or needs arise.

Insofar as I speak of a dwindling of purchasing power in the last months, I mean that of this decrease, a few percentage points are psychologically conditioned. In the more recent history of the Federal Republic we can prove that at the moment in which most is said about the dangers threatening our economy and "moderation" is recommended, precisely opposite reactions become noticeable. And thus, after a very dramatic worsening of the wage-price discussion in recent weeks, one suddenly changes and says that stabilization has set in. Suddenly very definite signs of stability begin to show themselves. That is what I read in a report that came from the German Central Bank of Frankfurt.

I believe if one looks at the whole, the point at issue can only be the attempt, in part through psychology, in part through control measures - that is a bad word but I shall use it nevertheless - to bring the whole economy into a sensible course of development. That one puts up a fight against a weakening of purchasing power, I consider a matter of course. I do not, however, believe that one can have absolute monetary stability.

Disregarding relatively short periods of time, there never has been absolute currency stability in our monetary history. It is a matter of using all means in order to keep the relative dwindling of purchasing power within reasonable bounds, and to avoid a real inflation. That is the main problem.

In this connection it is an idle thing to fight over who has the greater blame for the dwindling of purchasing power, for here too probably there is a whole series of factors everyone can claim for their excuse. The labor unions will logically say our wage policies are not to blame. They can present a whole series .of statistics in connection with the development of productivity, the formation of wealth, the development of costs, etc., which confirm their concept. Surely one can do the same on the other side with statistics concerning the development of demand through higher wages, etc.

I am of the opinion, and with this I should like to answer something Mr. Altmann said: whether the unions want to do so or not, in a free economy they can only carry on the wage policy the free economy permits. That has nothing to do with ideology, even if the attempt was once made or should be made to impute a certain ideology to the union wage policy. Actually the wage policy is guided by market-economy facts. I even dare to claim that in past years the wage policy in the Federal Republic far-reachingly had as its base our boom development and the possibilities offered by this development. That this wage policy must not necessarily lead to price increases has been proven. I can show that on hand of an example from industry (the textile industry), in which I worked. Wages were increased steadily, although they are not the highest of all the industries. If you take a look at the prices in the German textile and clothing industry today you will not claim that these prices have had an inflationary development.

Pentzlin

But the share of the German textile industry in supplying the German market has decreased decisively.

Tacke

That I do not want to contradict. Due to lack of time I unfortunately cannot become involved in a specialized discussion on the textile industry. If, however, one acknowledges the system of a free economy and opposes all compulsion, one naturally must put up with developments one quite dislikes.

Pentzlin

But Mr. Gutermuth does not want to put up with them.

Tacke

Mr. Gutermuth also does not acknowledge unconditionally a free market economy at least not as concerns coal mining. I also cannot enter into a specialized discussion on coal mining here. One also should hot make this specialized problem the basis for the entire complex.

As concèrs the demand overhang I am not of the opinion that the consumer will pay any price today. If that were the case one could not understand recent developments in large spheres of our food consumption. Just think of the development of the discount stores or the so-called grey market (transi, note: prices slightly higher than wholesale prices). Here, in a very few weeks, turn-over unequalled in post-war years was obtained. I wanted so say this regarding diagnosis. I shall get to the rest when we speak of therapy.

Bombach

Mr. Tacke, we agree with you right off that a growing economy also needs growing incomes in order to be able to grow itself, unless we begin with the Utopian model so frequently offered us that one day we freeze all income and have our growth take place with steadily dropping prices. That is a pattern that looks very well in theory but unfortunately cannot work.

But what we want to discuss today, Mr. Tacke, is the question concerning the marginal area in which increases in nominal income are no longer compatible with the stability of the value of money. You say that there never has been stability. What you naturally wanted to say was: stability of prices. No one will strive for stability in real categories. We do not wish to disembogue into a stationary condition.

Tacke

No.

Bombach

You are completely right that in the history of the economy there have been no protracted periods of stable prices. Prices rose and prices fell. However, we find that the price level around 1929 was not essentially higher than, say, around the beginning of the 19th century, i.e., in this long span of years, the periods of price drops and price advances have approximately balanced out. What we fear today is that there will not be such a balance; that we are today in an age of steadily advancing prices. Already one speaks of a "secular inflation".

You ask: actually beginning with what rate do we want to speak of inflation and what rate is still acceptable? That is the crux of our entire discussion - a very dangerous question. We cannot commit ourselves to a definite rate and say that 3% is a venial sin but everything above it we call an inflation which we actively oppose. At the precise moment you name 3 %, these 3 % are raised to a norm. Then you can be sure you will have more than 3% because everyone will, from the very beginning, start with 3 %.

Tacke

I do not start with it at all and I also do not name a percentage. But I believe, if we had a continuing strong devaluation of our purchasing power, there would be definite signs which we could see.

Bombach

But we do feel them already.

Tacke

Pardon me, but up to now, in the past 10-12 years, in the Federal Republic, we have had periods in which prices were relatively stable. There is always some price or other that is fluctuating. And we have had times in which we noted increasingly strong price increases. But up to now we have had no constant development with an absolute, uninterrupted downward curve of the value of the money.

Pütz

I believe the curve has fallen steadily but with varying sharpness. In the Federal Republic we have consumer price statistics from which this can be seen openly and unequivocably. You are right that this curve is not steady but from 1951 to 1961 it shows a downward trend and, at that, of an average of about 2 %.

Tacke

But with this percentage we cannot speak of inflation.

Pütz

If you please, that is a matter of taste.

My colleague Bombach and myself are national economists and belong to no group of vested interests. You, as a labor unionist, must be interested in having a yearly drop of 2 % or 2-1A % do no damage. These 2 %, however, make the union so strong that you are satisfied.

I, as a national economist, can only side with stability. But as to the question whether 1 % or 2 % or 5 % should be considered as inflationary, for that there are no satisfactory objective criteria.

Tacke

I can think of a standard although I do not want to represent it as correct. I can imagine, for instance, that an investor does not have to fear a genuine loss of wealth if the interest on capital is higher than the loss of purchasing power. I can imagine that people with wealth are guided as follows: if the D-Mark loses 2 Pfennigs a year in value and is increased nominally to DM 1.05 through interest, then they will put up with the 2 Pfennigs loss of purchasing power. I do not want to claim that that is a correct standard, but I can imagine that such considerations are valid.

Pütz

But that is no reason why such a condition is desirable in the long run from the viewpoint of the nation`s economy.

Bombach

One could find another important critérium in saying: that degree of inflation is still acceptable that does not lead from a creeping to an open (galopping) inflation, i. e., which does not snowball.

Pütz

There is no such degree because it is not determinable.

For about 8 years we had an average rate of about 2.2 % inflation in Austria. Suddenly we now have 6%. Why? We would not have 6% if we had not had 2 % continually before. That is the decisive problem. If one accepts such an average rate, one aids inflation.

Bombach

American colleagues are not so timid in this connection. But up to now they have not gone through the experience of o galopping inflation. For them, that degree is still acceptable that does not lead to an acceleration. If, however, one accepts this critérium, then Chile, too, would have a "stable" currency, although for years past it has had about a 25% loss of purchasing power. As national economists we must say: at the very same moment in which we set a certain rate as norm, it is safe to say that we shall get more than this rate because everyone will be counting on it. Within a short time it would be accepted into jurisprudence as a norm and would be presupposed in contracts.

Spiegelhalter

We did ask the question regarding the cause of inflation. We agreed that inflation exists when overall demand develops beyond overall supply. Now there would be the further question who, within overall demand, causes the overhang in the first place. I should like to know whether this question can be solved at all purely from the standpoint of theory. Must not certain concepts of norms come into play from the very start? At this point I only mention as an example a norm which is frequently discussed: that part of overall demand which grows beyond the degree of growth of the whole, which, therefore grows out of proportion, causes inflation. But one could just as well say that this part, for instance wages, is only inflationary if simultaneously another part, for instance, government expenditures or rate of investment does not diminish. But which is the theory that tells us what part should diminish and how much the other can grow out of proportion?

But with it, at the same time, is posed the question why one denotes the one part as inflationary in case a second part does not balance it? Where, then, from a scientific standpoint do we take the critérium of the "inflationary" of a development in a certain sphere? And my thesis now is that of a necessity one must include a conception of some norm or other if one wants to make a statement at all. But which, in each instance, are the right conceptions of a norm? Is the norm to be based on the proportional share of each sector thus far, or should a sphere in the process of development receive priority over others? And must there not then be certain norms for measuring this priority, this yielding of one group with regard to another? One would have to agree on this too before one could make a statement concerning the inflationary behavior of a partial sphere.

Bombach

Actually, you have just now held the introductory address for the circle of problems of therapy because you asked concerning the criteria for an anti-inflationary policy. This urges the question, which component of demand is responsible for inflation, which components have developed out of proportion, etc. Such an argumentation, however, implies that today`s distribution of the gross national product into consumption, investment, etc., is precisely the right one. The rate of investment must not decrease, the expenditures of government must not increase, we must have exports, etc.

That doubts conerning this - in my opinion highly problematical - keynote sentence was advanced precisely by you, of all people, Mr. Spiegelhalter, surprices me a little because I know that you yourself at one time constructed a pattern for classifying inflation.

Spiegelhalter

But I expressly said that one needed a norm to start with, a rule for the game, on which one had to agree. One must first agree regarding the norms before one can say who is violating the norm and thus is inflationary. If you do not name the norm, you then cannot tell anyone that his action is inflationary.

Bombach

I also stuck my neck out with such a pattern at one time, and ! shall never do so again. Limitations expressly stated are overlooked, unfortunately - consciously or unconsciously.

Spiegelhalter

Yes, but my question is, after all: how do you want to reach a judgment concerning a cause without establishing some norm?

Bombach

One can never ask of theory that it do that; it is not the task of economic theory to establish norms.

Pütz

Of the theoretician you can only ask that he show you associations of relevant ideas, for instance, for the phenomenon of inflation.

The overall demand is composed of public demand for consumer goods, of private demand for consumer goods, and of the demand for capital goods. And now you can subdivide further into smaller aggregates, and so on. I can subdivide the demand for consumer goods and indicate its development. The same is valid of the demand for capital goods and the export surplus. Then I note that for two, three years we have had an active balance of payments, that no compensatory events were observed in the development of consumption and that in the years 1954 to 1957 we had budgets with high deficits. From this necessarily follows the conclusion - we do not want to speak of blame - that that is the source of the widening of demand which has had an inflationary effect. I do not know in the least why you need norms. That is a questio facti, an empirical investigation. I merely note which magnitudes have decreased and which remained the same, as well as which grew out of proportion.

Spiegelhalter

That is a description against which I have nothing at all to say.

Pütz

Yes, but that, after all, explains which changes in magnitudes caused inflation.

Bombach

The danger is, it`s true, that one immediately asks the question concerning the causes, concerning the "guilty ones"

Spiegelhalter

When we begin to ask about causes and causalities, by that very fact we enter into a conception of norms.

Pütz

No. I could point out - with all reservations concerning the reliability of statistics - that in Austria during the past 10 years, wages ran approximately parallel with growth in gross national product. I could show you that in this or that year the budget had to this or that extent a deficit and had to be financed through obtaining loans at home or abroad. I could show you the exact development of the balance of payments. Do you understand?

Bombach

You see, Mr. Spiegelhalter, if one presents such statistics and such analyses, there is always the danger of a misinterpretation.

Pütz

I believe, however, that this danger was not present in my address. I only spoke diagnostically of a constellation of causes, not of the quantitative problems; but we are today in a position - although in rough approximations - to say statistically approximately where the expansion of demand takes place.

Voigt

I am anxious to set some limits to our discussion. It is in danger of erasing important differentiations. If, when we diagnose, we do not analyze processes of national economy which also bring other results in their train, false perspectives are introduced into the discussion. We do ask, don`t we: can labor-management wage-price autonomy basically create optimum conditions for economic development?

I believe, wage-price autonomy of labor and management need not necessarily bring inflationary tendencies in its wake. In the historical development of the market economy there were periods as well in which labor-management wage-price autonomy strengthened deflationary tendencies, and less than full employment strengthened unemployment. In our discussion, we must also consider the possible processes resulting from collective-bargaining autonomy, not, that is, the inflationary effect by itself.

And a second remark concerning the course the discussion has taken up to now. If we now speak of inflationary tendencies because of excessive demand, we merely speak of the influences that cause wage increases and do not consider at all that the rise in demand can also come from other increased incomes without the rise having to be a result of labor-management wage-price autonomy.

I should like to refer expressly to the fact that as far as we can surmise from German statistics, the greatest increase of demand was not scored in that category of goods of which more is purchased when the wages of workers are increased. To the contrary! The steepest tendencies to price increases were in the industrial branches of the capital-goods industry, especially in the building trades. A great part of the additional wage increases went into savings. Effective purchasing power was in so far inactivated.

The question is of interest to us now whether an increase in wages must necessarily lead to inflation. I believe under certain conditions it must not. When as a result of wage advances, the economy`s productivity is increased, it is especially then that no inflationary tendency shows itself. This process we were clearly able to observe the course of the past decade.

Let us ask when wages affect a change in productivity. Namely then when the incentive to an intensified use of machines, to scientific management practices, grows. I dare to claim that such an effect of steadily increasing prices is one of the main reasons for the extraordinarily busy investment activity in Germany`s national economy at present. The relatively strong wage hikes lead to the well-known substitutionary effect: labor is too expensive, labor that is too expensive is replaced by machines with greater capacity, the new machines with greater capacity produce more with lower break-even costs, the cost of the new machines is financed through loans, i. e., we have the element of the creation of money. This, in addition to influences from abroad and the increasing activity of government, was the principal source of the inflationary tendency. Not so much, therefore, the increased purchasing power, which arises from increased wages of labor, is to blame for the price increases but a process in the nation`s economy which, as a secondary effect, results from a valuable activity of investment.

Thus, this is a case of a process which was not triggered so much by the increase in incomes but by this substitutionary effect. As it is to the purpose to automate with special intensity and to bring in new machines when labor becomes more expensive, such a process can lead to an industrialization process feeding upon itself. This process we were able to observe in the Federal Republic of Germany after the Second World War. It was not, thus, by any means solely a process of national economy to be viewed as exclusively detrimental.

To avoid a misunderstanding I should again like to stress expressly that there are inflations that can only cause harm. The growth process in the nation`s economy, which the autonomy of labor and management caused in the Federal Republic of Germany during the past decade - not like 1929 to 1933 - was, foremost, a process of industrialization, and an increase in prices was a dependent variable of the great activity of investing. This is the decisive point. At the moment when one industrialist introduces technical progress the other must also invest, if for no other reason for reasons of competition. That is the process feeding upon itself, with an inflationary effect, because it creates income; without in this phase, production of consumer goods increasing to the same extent yet. It is only when machine equipment has been installed that one can count on an increase of supply of new and additional goods. How the price level develops then is a question of the increase of productivity attained in the meantime. An increase in wages must, therefore, not necessarily have only negative results.

Klose

I wanted to revert briefly to the thesis of Mr. Frisch, according to which supply in general is adequate.

I believe, this is not valid, at least to a large extent in the very sector of services, a sector of growing importance. Rather it is becoming evident, especially in tourism, that the supply bottleneck is very important for the establishment of prices. Precisely in tourism it is interesting that for price setting there are not only "pacesetter" firms but also typical "pacesetter" localities. Precisely in Austria we note that prices in tourism are set by certain localities, i. e., the centers of tourism. Here we find a practically unstoppable trend toward strong rates of price rises frequently 10% to 20% per year. These price increases, however, can hardly be countered effectively, for on the one hand there is such a strong demand and on the other an expansion of supply is opposed by insurmountable difficulties, as for example labor supply. In this important sector of services all possibilities to intervene, perhaps through limiting the autonomy of labor and management, fail because wages are set almost independently of the rates set forth in the collective contract. It is precisely in these sectors that we find the strongest divergence between actual wages and wages prescribed in the collective contract. Wage setting takes place on practically a free-enterprise basis. But is is not a case of merely a few exceptions to the rule. Rather, the spheres in which such tendencies become evident are increasing in number. This results in a delimitation of the possibilities for solving the wage-price problem through measures that aim at curtailing labor-management collective-bargaining autonomy.

Bombach

You are again touching upon the problem in a certain sector, this one conditioned upon a bottleneck. But this evening, within the framework of this discussion, it will hardly be possible to go into such individual questions. We already mentioned agriculture and coal mining.

But, in passing, you touched upon a very significant problem: the gap between collective-contract wages and actual wages. It will be especially important to check the gap when we discuss the difference between "wage inflation" and "demand inflation".

Can we today, in view of the enormous gap existing today between collective-contract wages and actual wages, speak at all of an inflation caused by the pressure of costs, if in some of the industrial spheres, when hiring workers, the only subject for discussion is, what is paid over and above the collective-contract wage? What`s all this about "pressure of wages"?

If employers are prepared to be so liberal in their negotations, then this, in my opinion, is clearly circumstantial evidence for a demand pull.

Pütz

That has nothing at all to do with the power of the unions.

Bombach

The wage policy of the unions, then, is, after all, nothing much more than the confirmation of the situation on the market, the same as perhaps the discount policy confirms the situation on the money market. This is an important observation, to which Mr. Voigt also referred.

The collective-bargaining autonomy is today again and again made responsible for inflation. But there are also economists who say, we would have much higher wages and thus still more inflation if there were no industry-wide collective contracts.

Tacke

I believe, here one must set a few things straight. The gap between collective-contract wages and actual wages is not as large as is stressed in public. One should not be guided by single phenomena. I can tell you that between our statistics on collective-contract wages and the statistics of the Federal Bureau for Statistics concerning actual earnings, there is, seen as a whole, a gap of about 20 %, which one could call so-called better-than-contract wages.

Bombach

But that, after all, is quite considerable.

Tacke

Pardon! But you must also note something else. In wide spheres of our productive industry, wages are based on output and not on an hourly rate. This piece rate is based on time-work rate determined today by means of the most varied of wage-incentive and wage-setting systems. During the past weeks I visited some plants. In doing so I noted that in one plant even I, myself, judged output rate as 5 % less than it actually was. The output rate was around 122%. In such a case "earnings over and above contract wages" are not genuine above-contract earnings but a wage justified by output.

Bombach

And you believe that this output rate can be measured with complete objectivity?

Tacke

What, after all, is objectivity? It is at least an objective output rate if one agrees on the basic principles of a standard output within a plant and determines an objective work-time rate one can implement. However, it is possible to doubt everything. Probably there is no complete objectivity in life.

Voigt

At this point of the discussion we must still become conscious of the basic concept which became the occasion for viewing collective bargaining-autonomy of labor and management as the optimum solution of the relationship between employer and worker in a process of development.

The idea that in the interest of the best possible economic and social development it could be left to the persons immediately concerned to negotiate the amount of wages and fringe benefits, and that no other office not even the government had the right and duty to intervene, rests on the following prerequisites.

On the one hand there were workers who demanded the highest possible remuneration for their output. On the other stood the industrialists who as employers had to pay wages decreasing their own profits or capital. On the basis of the freedom of association, during wage negotiations, the employer associations as a union of industrialists stand on the one side. The production of labor promotes their own personal advantage and higher wage payments are charged to them. On the other side stand the trade unions as an organization of workers, who are to produce the output and demand payment for it. They are, it is true, associations with equal rights, with the same weight to be thrown into negotiations, but with opposite interests.

In this basic position typical for the close of the last century things in modern development have changed so fundamentally that the prerequisites for the basic concept of the autonomy of labor and management have shifted considerably.

1. In wide parts of our economy that ideal image of the individual industrialist no longer predominates, who on the basis of his private capital shapes the firm`s economic course. In the large anonymous trusts, wage negotiations are no longer carried on by those who must pay the cost of higher wages granted.

2. For a managing director, who does not know the large number of stockholders of his company, good labor relations with the workers of his company are usually more important than the profit interests of stockholders unknown to him, who usually do not even appear personally at the stockholders meeting. In addition it hardly ever happens that a stockholder in a stockholders meeting complains that the wages of the workers of the firm are too high.

3. Co-determination of workers in the plant and in the firm, instituted in the Federal Republic of Germany in 1946, since the Law on Co-Determination of 1951 and 1956 and the Plant Constitution Law of 1952, has completely changed the attitude of firms as compared with the original basic concept of the autonomy of labor-management collective bargaining in the spheres that are of special interest for us as regards the topic posed.

Let us show this on hand of the most extreme case, the iron and steel producing industry, amog the most important branches of industry in the Federal Republic of Germany. Who, in these firms, performs the function of employer? It isn`t someone who by reason of granting increased wages or fringe benefits would be essentially affected financially.

But first of all let us look at the Board of Operating Directors of the firms in this branch of the economy. Every member of the Board can only be nominated for a period of five years. Nominations are made by the Board of Managing Directors.

Who are these important personalities on the Board of Managing Directors? Represented on the Board on a pro rata basis are representatives of the workers as well as of the so-called share owners. Among these so-called share owners on the Board we find less stock owners than we do primarily representatives of firms and banks closely connected with the firm. The representatives of the workers are in part union representatives and in part plant personnel representatives. The so-called "neutral" personality is, in about half of the cases, a labor representative, and that fundamentally in the firms in which a representative of the workers was not Chairman of the Board of Managing Directors. Therefore, in half of all firms of this branch of industry, the representatives of the workers had a majority on the Board of Managing Directors.

A member of the Board, who has to be reelected periodically, is by no means in a position to act in the way an industrialist-owner would act in the pattern on which the basic conception of the collective bargaining autonomy of labor and management is based. In arriving at just what his attitude will be, he must be concerned with good labor relations.

Still more significant, however, the employer function is performed by a persona grata to the unions, namely, the Labor Relations Director, who, as a rule, is given the Social Security and the Personnel Departments as member of the Board of Operating Directors, with equal rights. The Labor Relations Director, as is usual today in the Federal Republic, is always a prominent member of the unions, and he keeps his union membership. For his appointment and for his dismissal, basically the votes of the labor representatives on the Board of Managing Directors are required. A Labor Relations Director is not at all in a position to play the part of the "opponent" of the unions. Rather, he is the standard bearer for union ideas in the firms.

Now let us look at the competent employer associations in this branch of industry. In up to 33 % of the top positions sit Labor Relations Directors, i.e., the standard bearers for union ideas. During collective bargaining, the unions are opposed by their own people. Thus, the original basic conception of liberalism breaks down completely.

That the Labor Relations Directors, for their part, influence the attitude of unions, and that the number of strikes in the Federal Republic of Germany decreased considerably is important, but it does not go to the heart of the question we are discussing today.

Certainly, furthermore, the co-determination of labor in the firms of other branches of the economy is not so strong. Nevertheless, here too labor has more or less changed the attitude of firms in those branches of the economy in which joint stock companies predominate. The greater the labor shortage In a nation`s economy, the more do wage hikes and increased fringe benefits, granted in one or in some of the branches of the economy, spread from one branch of the economy to the others.

We can no longer start with the idea that collective-bargaining autonomy of labor and management produces the optimum national-economic result from the bargaining position of two groups with equal rights and opposite interests as the theory of social policy frequently still claims today.

Bombach

I should like to thank you, Mr. Voigt, for your precise statements regarding this problem. But now the clock forces us to cut short our discussion concerning possible causes of creeping inflation. We must pass from the diagnosis to the therapy. Let me attempt to give you a brief resume.

We began with the differentiation between cost inflation and demand inflation. As is the case so frequently in similar discussions, watoo came to the conclusion that a clearcut differentiation is not possible. The statistical image and likeness of both types of inflation is the same. Nevertheless, for our talk, too, it proved to the purpose to keep the usual terminology.

We can today divide economists into supporters of the theory of cost pressure and the supporters of the theory or demand pull, if we do not consider those who, as a matter of principle, reject this differentiation. Probably the pressure-of-costs theoreticians would today obtain a considerable majority. Professor Pütz, on the other hand, with his keynote address and with his contributions to the discussion, has unequivocally acknowledged himself a member of the second group. I personally have agreed with him. His main thesis was, that the power of today`s labor unions and the softness of industrialists in conceding wage increases were only a result of the demand overhang on the consumer goods market. This overhang resulted in the inflation climate proper. When I look back at the individual contributions to the discussion, although many doubts were voiced, there were no essential contradictions of this thesis.

Naturally, and this the discussion showed, the interrelationships between the supply and demand situation on the goods market and the events on the labor market must not be viewed in an over-simplified manner. Wage policy frequently adjusts itself only very slowly and with a great lag in time to new given facts. A special problem is adjustment to the lower rate of real growth after the steep upward movement following the war.

We could not let it go at the mere statement that the causes of creeping inflation base on the fact that total demand grows faster than supply. One wanted to know also which components of total demand grew too rapidly. This way of posing the problem goes beyond a purely theoretical-statistical analysis. Theory cannot establish norms. Analysis can only note that certain components - in some periods perhaps investment, in others government spending, in still others consumption - grew out of proportion, i.e., they increased their share of total income. But with this, the blame for inflation must not yet be placed upon the,components in question. An increase out of proportion may have been desirable or even necessary and a policy of currency stability if taken seriously, would then have had to see to it that other "demanders" (sharers in the national income) pull back.

Further, certain precisely identifiable foci of inflationary price movement were mentioned. Naturally, no serious danger threatens the general price level as long as "special spheres" remained limited. Never, after all, is the stabilization of individual prices pursued as an objective per se. Rising prices in certain branches - conditioned upon a limited possibility to increase productivity, various mention being made, especially by Mr. Frisch, of the peculiar characteristics of non-productive industry (the tertiary sector) - can be compensated by price drops in branches with rapid progress in productivity.

Two conditions, it is true, must be fulfilled if this compensatory process is to function. First, prices must, on the whole, be capable still of moving downwards. With complete inflexibility of prices in one direction, inflation is unavoidable. Secondly, it must not be a case of the unions using their opportunities to the full in the spheres with above-average progress in productivity. Otherwise the spheres with low growth in productivity pull up in a justified effort to establish traditional wage relationships.

Finally, it also became evident that in making a diagnosis, the movement in the gap between collective-contract and actual wages must be kept in mind.

If now we turn to the second circle of problems - consideration of economic-political measures of stabilization - we shall have to come to grips with Mr. Pütz`s central question: What can be done, while keeping collective-bargaining autonomy, in order to create a basically different climate for wage negotiations?

This would have to be tied in with the cardinal problem indicated by Mr. Spiegelhalter. Inflation reigns when total demand grows faster than the supply of goods. In this regard, however, we would have to localize the components which, in our opinion, grew too rapidly. Theory, as we have just found, cannot supply an answer. One would also be expecting too much of the group of experts, the establishment of which we shall now discuss, if one supposed that they could tell us that this or that distribution of the gross national product among the main aggregates of demand was the correct one "from the standpoint of science". Perhaps precisely in Germany, more than in other countries, one believes there is something like a unified standpoint of science, or that with scientific methods professors could help to make the fight over the distribution of the gross national product more "objective".

The supporter of the classic pattern of the market economy would perhaps interpose that as concerns the anti-inflation policy one should limit oneself entirely to overall measures; the mechanism of the market would then take care of an adequate portioning, i. e., curtail the least urgent demand. Every political discussion concerning partitioning of the national income among the principal demand components was alien to the essence of the market economy. But, if I may anticipate this, we are not quite happy about this pattern. Who will guarantee to us, for instance, that money policy will curtail precisely the demand which is the least urgent? Besides, furthermore, the mechanism of the market as regards its functioning is hampered or completely annulled in wide spheres of the economy.

Thus one does not quite want to depend upon a self-propelling process. That is the reason for the effort made in many countries to look ahead and consciously influence the economy.

The scale of possibilities which we have to discuss in this regard is extraordinarily wide. In addition to scientific advisory councils, one is thinking in Germany of establishing a body of experts who merely make a diagnosis, calculate the effect of certain developments, events, and plans on growth, employment and the development of prices, but - and this is important - make no recommendations themselves. At the other end of the scale are countries which establish an economic budget (transi, note: an estimate of national income and how it is to be spent) and base their measures of economic policy on this economic budget.

If then we discuss further measures to curtail money demand,two problems face us. Logically, the question should be placed first, who is to set the norms of an anti-inflation policy for us, i.e., at which point is demand to be curtailed. Conjoined with it is the second question, how the slowing down of demand - on this agreement having been reached - should be carried out. This is the question regarding anti-inflation instruments. In actual practice, unfortunately, one does not observe this logical sequence of rank but instead curtails demand where it is easiest to do so. The path of least resistance is taken.

Conclusions today will be drawn - implicitly or explicitly - from the premise that wage income is completely expended for consumption purposes. However, a significant change has been accomplished in savings habits during the past years. It should be taken into consideration in our discussion. We should also come to grips with plans existing today for consciously stimulating savings, plans which go all the way to a type of compulsory savings and compulsory payroll investing which, it appears, is just now becoming fashionable again.

Küng

It does appear to me that the answer is relatively easy if we find that in a nation`s economy there is an active production balance, roughly expressed, an export surplus in the amount of so-and-so many billions. For the nonce we shall be permitted to conclude from this fact that through this surplus an inflationary effect is exerted on the domestic economy. Thus, an obvious measure of relief, the rate-of-exchange policy, would have to be taken under consideration because it primarily affects foreign trade.

Or we note, for instance, that the government budget shows a deficit, financed perhaps through credits of the note issuing bank. Therapy for the nonce again appears to be clear. By eliminating this deficit we shall also cause its contribution to the inflationary situation to vanish.

We note further that the sum of the investments made surpasses by so-and-so many billions the amount of voluntary savings available. We conclude from this fact that this too has an inflationary effect. If we want to avoid an increase of money in circulation, we should perhaps best start with investments, that is, if we do not prefer to influence some other variable. The most suitable instrument would naturally be the credit policy, in this case. It affects investments primarily.

I expressly stated that this is a case of judging at first glance. I merely note that certain factors can have an inflationary effect and that there are certain ways of exerting influence so as to eliminate them. Whether it is really to the purpose to use them, remains an open question. If, for instance, it is observed that consumer spending is too high in comparison with supply on the consumer goods market, one would evidently have to cut back consumer spending. But perhaps one can also decide purposely to maintain surplus of investments over voluntary savings, perhaps in the case of a developing country, in order to work on a long term basis and create more jobs. Perhaps, therefore, one could decide to carry out temporarily a compulsory curtailment of consumption.

At first glance, thus, the means of intervention as noted appear to be clear. But perhaps when examining the matter more closely other suggestions will, after all, be made.

Bombach

We should bracket the problem of developing countries as well as the question whether investments there should be, or could be, financed via inflation. That is a problem by itself.

Now let us take the case in which there is an out-of-proportion rise in government spending financed by means of a budget deficit. As a counter measure there presents itself the method of cutting the deficit and doing so by means of a reduction in spending. This conclusion is usually drawn. But I also take the standpoint that an increase in government spending is unavoidable. In Switzerland, for example, roads have to be built. Then there is only left an increase in taxes. This will decrease spending at another point of the nation`s economy.

But then the question arises at what we should aim the taxes. Should they be directed against investments or against consumption?

Altmann

The topic of inflation, however, is only of interest if we can say that close causal connection exists between it and the price-wage problem. We must revert to that more strongly if we want to get to the practical pant of our discussion, for otherwise our talk will actually exhaust itself in discussing the theory of an inflationary development.

Pütz

May I now speak 100% practically? The Institute for Economic Research of Vienna has made a diagnosis. From it has been developed a therapy which Austrian economic policy has implemented.

From the currency policy side there thereupon ensued an open market operation - not from the discount policy side, that was dispensed with. Further, there came a tightening of regulations concerning minimum bank reserves. Then the effort was made to cut back the deficit of the budget, in order to decrease this deficit as much as possible - it had been planned larger - and in order to balance the budget. Further measures were undertaken as concerns foreign trade policy, in the sense that tariffs were cut.

In other words, classical instruments of economic policy were used. Further, an appeal was made to labor and management, and a sort of hold-off agreement reached with them.

Regarding the levelling out of the economy that took place, the Institute for Economic Research commented that the successful levelling out of the price development was less the result of these measures than it was the result of a levelling out of the boom as a whole.

If now we inquire as to the rationality of these measures, then we find that everything was extremely sensible. I do not see any such complicated normative problems in that as you do, Mr. Spiegelhalter.

All these measures were used because one was under the impression that demand aggregates conditioned by known economic spheres had grown too rapidly. Therefore these dampening measures were employed. The dossification of the measures, that is a specialized question.

Spiegelhalter

If you say "too rapidly", you again set a norm with the little word "too", don`t you?

Pütz

But that isn`t a norm, it is a statement of fact.

Bombach

If you use it as the basis for a measure of economic policy, then it did turn into a norm.

Pütz

Yes, what makes it function as a norm is the value of the currency, maintaining the value of the currency.

Andreae

Who is supposed to maintain the currency? All concerned - who more - or who less?

Bombach

Mr. Andreae, we are belaboring the obvious, the question whether there should be that ominous economic budget with which once a year, in-advance, is determined what is to be considered as sensible, as "right", or whether politics is to be carried on as the art of doing what is possible to do, and compromise things: here a little bit more,there somewhat less. This, of course, is also valid within the macro-components of demand. We are acting as if, for instance, government spending were a large aggregate, as if it were guided by one common will. Actually we have the federal authorities, the provinces, the communities and the subsidiary fiscal offices, each vigorously fighting the other. The federal authorities and the provinces claim the communities are spending too much; the communities say, we do not spend too much at all, rather our source of tax income is too narrow. We receive too small a share of the budgets of our superior authorities: give us 5% of income tax revenue, then everything will be resolved.

It is always a case of norms.

Wenger

In his lecture, Professor Pütz established the thesis that all cases of negative effects of collective-bargaining autonomy of labor and management could almost completely be relegated to a back-position if, from the very start, this collective-bargaining autonomy were placed within necessary limits by means of general measures of economic policy undertaken by government. I thoroughly agree with this thesis but should nevertheless like to ask the question, in this connection, whether in view of the increasing influence exerted on the government`s economic policy by pressure groups on all sides, it is still possible in a sufficient degree to place collective-bargaining autonomy within necessary limits.

Josua Werner, in his investigation of the group organizations in a market economy, arrives at the -in my opinion convincing - conclusion that particularly a long-term maintenance of a free market economy calls for a government that disposes of strong authority. A strong authority, however, presupposes far-reaching independence and autonomy of government organs. From practical experience I venture to doubt that this prerequisite is still fulfilled today.

I should like to buttress this opinion with a few references to conditions in Austria. According to the Austrian law on foreign trade, basic matters of foreign trade and imports requiring permits with a goods value of more than 150,000 shillings, must be placed before a council for its review. In addition to representatives of the Ministry of Economy and of the Central Bank, representatives of legally constituted associations, of interested groups, belong to this council. This council cannot issue formally binding resolutions but in practice, under present political circumstances, opposition to the opinion handed down by the representatives of interested groups on this council (these, moreover, are identical with labor and management) can hardly be imagined. The same is similarly valid for the council as set up under the tariff law. And here it is not a matter of opinions regarding proposed laws but of collaborating in the execution of laws. The experience of the past years has shown that by means of this structure, in consonance with the market situation at the time in question, measures for easing price-wage pressure can be implemented, if at all, only to a limited extent and with considerable delay.

A similar situation to that on the goods market is that on the labor market. Although in accordance with Austrian law, the right to grant labor permits for foreign workers belongs solely to the Labor Offices of the Social Ministry, up to 1962 the Labor Chambers and the unions were able to prevent the coming of a large number of foreign workers needed by the nation`s economy in view of the almost complete depletions of domestic manpower reserves. I won`t go into the question in how far the fact that the incumbent in the post of Social Minister, prior to assuming office, exercised the functions of a Secretary General of the Austrian Trade Union Federation influenced the situation. In any event, it is a fact that not until the beginning of 1962, i.e., too late from a boom policy viewpoint, on the basis of an agreement between unions and industrialists associations, a larger quota of foreign workers was authorized.

These few examples show to what small degree, independently of labor and management, government can implement timely effective measures of economic policy in view of the generally noticeable increase in the influence of pressure groups. As is known, Walter Eucken, in his "Grundsätze der Wirtschaftspolitik", voices the opinion that by investing associations with public character after the pattern of craftsmen`s organizations, this social problem would rather be worsened than overcome. That, in my opinion, is also valid for the inflation problem.

For our discussion, I should therefore like - perhaps somewhat subtly - to formulate it thus: collective-bargaining autonomy of labor and management appears to me to be in accordance with a market economy order just so long as the influence of labor and management on the general economic policy of the state does not infringe, in this sphere, on the freedom of government offices to reach decisions. However, autonomy becomes a danger at the precise moment in which the state delegates so many of its economic-policy functions to labor and management that it is no longer in a position to play the role of a "countervailing power" in the face of the power of the labor-management coalition.

Bombach

Viewed generally, you are right. The state is not an acting person. But let us ask, who this state is?

Wenger

The highest public authorities, especially government. And their task, transferred concretely to the practice of economic policy is to push back the somewhat luxuriating influence of labor and management on the state`s economic policy.

Bombach

In how far is parliament not identical with labor and management, too?

Wenger

I should not like right off to claim such an identity for parliament. It surely applies for individual deputies but not for the parliamentary factions which, as a rule, vote as a unit.

Bombach

This problem poses itself quite openly today and I believe the English have recognized it most clearly. I mean the question whether certain instruments of economic policy should not be placed entirely in the hands of the cabinet, freed of the possibility of influence by parliament and the long delays of legislative machinery. We must think especially of a variation in tax rates in conformance with the relevant situation of the economy. With it, in a limited framework, it would be possible to carry out economic policy beyond the sphere of influence of the pressure groups, a possibility which otherwise only monetary policy has.

Wenger

That is valid not only of tax policy but also of the other spheres of economic policy, as for instance foreign trade policy, social security policy, or also monetary and credit policy. It appears to me, the allergic point is not so much the influencing of parliament by pressure groups but much more the influencing of the executive branch of government.

Frisch

I should like to comment indirectly on that, but directly against the economists. I believe that an economic policy presupposes politics. And politics today, whether we like it or not, is far-reachingly social security policy. The primacy of full employment is now generally accepted. Your remark, Mr. Bombach, that everything was a question of time, and that people, thanks to economic laws, must come to their senses, is correct theoretically but in my opinion not correct practically because we simply cannot afford any more depressions.

Economists also agree with this, not as economists but as citizens. We are in the midst of a battle of competition, perhaps in the wrong battle of competition, perhaps in an unnecessary battle of competition, with the East. At the present stage of so-called peaceful coexistence, we cannot afford certain things.

What can we do now in order to avoid inflation while maintaining the primacy of full employment? I am of the opinion that the primacy of full employment means permanent expansion, and to the same extent and perhaps greater than productivity.

Bombach

Expansion of what?

Frisch

Expansion of production. Because we have to maintain full employment.

In general, in an economy that is at least partially free, expansion is financed by obtaining credit. We can naturally say that this has to stop, an opinion we could justify. But in such a case one should also be aware of the consequences. Wage increases must keep overall step with and must not rise beyond productivity. If we want to keep strictly within the framework of economic balance, we must introduce a national wage policy and must prescribe that those industries with a high productivity can only raise wages 2% and that prices must drop 2%. This would compensate the unavoidable increase in fees for services.

Bombach

But that clearly means a planned economy.

Frisch

After all, it is a question in how far your theoretical anti-inflation policy can be brought into agreement with a free system. But I personally do not believe...

Bombach

Mr. Frisch, excuse me, please, if I interrupt. At the moment your are touching upon a very important problem that we should not treat until later.

Frisch

No, it belongs here. I mean, namely, that your classical` means are no good because you have not answered the basic question whether you want to pursue them to their final consequence. You cannot separate economic policy from social policy.

Bombach

No, Mr. Frisch. We are now, after all, discussing the question how we can curtail the growth of money supply.

Frisch

But someone must want to curtail it; that, after all, is the question; these are political questions...

Bombach

Someone must always be ready to accept curtailment of his income (today it would be better to say "growth in income").

Neuhauser

We do, after all, have to ask ourselves, whether we want to realize the objective of economic policy of "stabilization of the value of money at any price" or more realistically put, what secondary effects on employment, on growth, has the full realization of the objective of economic policy of "money stability". That is the sole viewpoint we take.

Bombach

With it you advance the well-known thesis that inflation simply is the price for full employment.

Frisch

No, of freedom.

Bombach

For full employment under freedom, of course. But we must check later on whether this is correct, whether this alternative actually exists. You imply that real expansion must be connected with a rise in prices. That by no means has always been the case. From 1870 to 1896 we had a very strong and steady expansion, on an average about as we have today. This expansion was accompanied by a tremendous expansion of credit, and all this took place with steadily dropping prices.

Frisch

At whose cost?

Pentzlin

Since 1880 we have had a steady increase in the standard of living.

Bombach

Mr. Frisch, I admit, that at that time various spheres had to endure enormous difficulties, especially the farmers in a few countries.

Sombart

The rest of the world was exploited.

Löwenthal

Gentlemen, we cannot compare conditions in 1880 with those of 1962, can we?

Bombach

No, I don`t want to do that. I only want to say that from it you cannot conclude logically that every expansion financed by credits must result in inflation.

Andreae

It does under today`s political and social-policy circumstances.

Pütz

Then, my dear colleague Andreae, there is nothing to discuss at all if you merely say: the political conditions are "telles quelles". Then we don`t have to talk any more at all. The idea behind every discussion is to change politics. You cannot reckon existing political policy as a datum. We are only speaking of how we can change political policy, aren`t we?

Altmann

We do understand theory to be only the basis for a usable policy. If we are of the opinion that the means which you develop theoretically cannot be put into practice, no matter whether this is due to the power of the union or due to any other cause, then the theory is worthless. Then it no longer has perceptive value for politics. The theory has then become a fiction.

We are postponing the real discussion - one has to analyze what is possible politically. That is a very interesting question, in which behavior research can also help us.

Stohler

If we only talk of what is politically possible, then we cannot talk at all about combatting inflation.

Altmann

Absolutely correct! But we are, after all, speaking of politics as the art of doing what is possible. The question thus is, whether a stabilization of currency policy is politically possible.

Brechling

Must we always have absolute objectives? After all, it is a question of keeping unemployment and, at the same time, price increases as low as possible. Or do we really want to claim that price increases must be prevented at all costs?

Bombach

You are right, Mr. Brechling. It is not to the purpose to aim at an ideal condition, rather we can only discuss in what direction something already existing can be changed. We can note tendencies exclusively. Every theory that aims at ideal conditions is suspect to me from the very start.

Brechling

We have estimated, for instance, that in England, to obtain perfect price stability, we would have to have unemployment of an average of 5-6%. And that is too much. Why not then 3-4% inflation? Of course, a while ago you said that this would unavoidably lead to hyperinflation. Your claim, by the way, has not been proven empirically.

Bombach

No, I only said one could use such a rate as a critérium. Mr. Pütz then rightly interposed that such a rate could not be determined.

Pütz

I believe we are getting into all sorts of interesting bypaths. The question, after all, is collective-bargaining autonomy and price-wages. We are faced with a certain alternative, a political alternative: should and could we attempt to keep the upward price-wage development as small as possible while maintaining complete collective-bargaining autonomy, or do we believe that we must limit collective-bargaining autonomy?

I cited Mr. Frickhöffer: "Stability of the value of money has priority over collective-bargaining autonomy". My thesis was that for social-policy reasons everything possible should be done to maintain collective-bargaining autonomy (that, therefore, is my norm). Free labor unions, free employer associations are in accord with a social-market economy, to be sure, the free order of society.

If we want that, what then are the ways to achieve it? I believe that we must search for a combination of all instruments, for one on the more elevated plane, which is the responsibility of the state (in currency policy, in foreign-trade policy, in fiscal policy), on the labor market itself by means of a better collaboration between labor and management, as is attempted in Sweden and with us in Austria, in order to obtain better results by making labor-management discussions more objective. Perhaps that is only the third-best or the second-best solution, but it appears to me to be a realistic consideration.

When I look at the behavior of labor unions and employer associations during the past decades - this is valid for Austria and valid also for other states -then there is no doubt at all, that from a purely class-struggle situation, the desire of the parties concerned to exhaust the possibilities of a momentary position of power is no longer the style of today. The readiness to talk things over is surely very great. That is enormous progress. We should continue on this road.

Through an improvement in economic measuring methods we should attempt to find facts usable in practice. Further, through continued institutionalized contacts between labor and management we should try to talk to each other rather than fight each other. If we want to save collective-bargaining autonomy I believe that the solution can only be found along this road. Otherwise there will come the day we shall say: we can`t go on, the state must take a hand in setting wages.

Then we shall have gotten off the road which we have undertaken to travel. That is a profession of faith and in this sense too I am a "professor".

Stohler

The question was asked, who establishes the norms for limiting those parts of total demand which are at stake in these overall measures. These norms, as we said, cannot be established theoretically. We must answer the factual question: how are these norms established today with us? What are the criteria for limiting overall demand? And there, it appears to me, Galbraith has an essential answer. He said that antiquated prejudice, convention, sets these norms.

It appears to me that in very recent days we saw an applied example of it. In the Federal Republic, a "Second-Thoughts Budget", a budget of moderation, was passed. The public sector is charged to be moderate. Secondly, the investment sector, at first government then private, is charged to be moderate. A sector that is not charged with the task to be moderate, not limited by this ideology, is private consumption.

Is that not an erroneous, inconsistent establishment of a norm? In how far are government spending and private investing only a function of private spending for consumption? How far must we, therefore, curtail the entire volume of spending, in the consumer sector too? Is this sin of omission not perhaps the root of the evil?

Tacke

Permit me first of all to point something out: as concerns the relationship between "labor and management", we have in Germany, it`s true, no arrangements as in Austria, in Switzerland or in

Sweden. Nevertheless, I believe that in practice we hardly act differently than they do in these three countries. The labor unions, doubtlessly, if they had availed themselves of all the advantages of full employment in the past years, would have been able to carry out an entirely different policy. That was not done and conflicts, as concerns collective bargaining, take place in an absolutely objective atmosphere. Im doing so less is spoken about social life-and-death questions than about earning power and profits, prices, reserves, formation of capital in the plants, etc. Most of the collective-bargaining negotiations are excellent discussions and lectures on national and plant economics. That much for actual practice.

If collective-bargaining autonomy were interfered with, everything would go wrong - we experienced that in the time prior to 1933. Then there would be no responsibility any longer, neither on the one nor on the other side, rather the responsible one would be the state. The more recent developments in Holland show that the state system cannot work.

Now it is natural - and no one denies it - that in part at least higher wages, as far as they are used exclusively for consumption and as far as prices develop according to supply and demand, doubtlessly have a price-increasing effect. That is not denied by the labor unions. In doing so we do not claim that as far as it is guided by demand, the establishment of prices is absolutely just and correct. Prices can also be guided by and established according to other principles. However, we all realize that in an economy where one takes as much as he can get, that is the way things go. If one imputes that wages or better higher wages lead to an overhang of purchasing power and demand, thus increasing prices, the question then is how can I neutralize this overhang.

I could claim for myself that I made the Federal Government an entirely concrete suggestion about that too. Just as on one side incentives are invented in order to increase consumption, one can imagine there are incentives to curtail consumption, i. e., from the demand side to reduce excess purchasing power. There is an instrument for this that I consider the best in a free economy, i. e., incentives for saving money be created in a much stronger measures for recipients of wages and salaries, that is, for labor income. We have initial steps in this direction in the form of bonus savings and so-called tax-favored savings. If one did that to a greater measure and by means of such an incentive the very last Mark that could be spared were saved, then one probably would be more successful than with what one in general is discussing today.

But here again, unfortunately, I must, right off, set a question mark. What would happen if people began saving and cutting back purchases to such an extent that there would be no further incentives for expanding production or for making production more efficient? Anyway, it appears to me that an incentive to increase savings and psychologically influencing people in order to reduce the stimulus for consumption are, foremost, the most genuine instrument to neutralize a so-called price-inflationary development.

Körber

I should like to premise on the fact that I too am of the opinion that savings are a good means whereby to decrease a purchasing-power surplus.

I put my question to you: why do you look only to government to create incentives for savings and why do not the labor unions take the initiative themselves within the framework of wage negotiations, i. e., when they are sitting around the table with management, to create an incentive for savings by workers?

Tacke

Of what should such an incentive for savings consist?

Körber

Labor and management should jointly devote thought to that. They should be intent themselves upon making a contribution with a restraining effect on the inflationary movement.

Tacke

Suggesting, we are doing that.

Körber

Suggesting is not enough; labor and management should themselves, among themselves, create incentives for savings for labor, and should not approach government, merely petitioning for such incentives.

Tacke

You will have to say more plainly what you mean.

Körber

Establish a Labor-Management Bank and during contract negotiations state: of the wage increase we are getting we want to place a percentage in a joint fund. At a period to be determined by labor and management, say at age 65 or 60, the worker is to be paid the sum he saved plus compound interest.

That would be an instrument for regulating purchasing power, wouldn`t it?

Tacke

I do not believe that we can force employees and workers to save. It is a matter of a personal incentive. Even a bank that labor would found - and we already do have one - would not solve the problem.

Körber

But do earners save enough?

Tacke

Earners do save. The only question is whether they save enough, seen from the standpoint of the surplus of purchasing power.

Bombach

I am very grateful to Dr. Körber. He very plainly said what I always used to say myself in discussions, namely: why do the labor unions see their sole perimeter of action in wage policies? The objective of the union, after all, consists of increasing the worker''s share of the gross national product, not to be satisfied with a stable wage rate.

We know today that they cannot attain the goal through wage hikes but only in combination with greater savings. To demand higher wages is always very popular. But afterwards to call upon the workers to save, that`s not popular.

Tacke

You will not find anyone among us who incites the employees and workers perhaps to consume more. Only industry does that.

Bombach

A while ago, in this connection, you touched upon a very important question. If it is possible in some way or other - no matter whether voluntarily or involuntarily - to achieve a massive increase in private savings, i. e., for instance in the form of a wage increase which is only paid in part, but in part is frozen, as Dr. Körber suggests, this naturally would lead to a reduction in the profit rate. The problem, now, is how industrialists would react to this. Would they answer with a curtailment of investments, and many of my colleagues do in fact fear such an "investment strike", then the opposite of what was intended is gained. Instead of stable growth there would be a recession.

Pfleiderer

I am of a different opinion.

It is of course a task of the state to do its part in order to create an incentive for savings in the most effective way possible. As to the objective, I believe there is no disagreement, neither between us nor with Mr. Tacke. It is only a question of the effectiveness of the individual instrument or the choiche of the best means. But a word should be said too about the limits set to the effectiveness of monetary policy in the present situation.

At first glance it appears very evident what Mr. Pütz said in his lectures, namely, that every inflationaryprocess stands or falls by being, so to speak, financed by the supply of money. He spoke of the softness of monetary and credit policy.

That, as mentioned, is completely evident; only we must realize that there is no monetary policy and there can be no monetary policy whose effect would be that every industrialist lack precisely the money he would need in order to pay higher wages; or that every individual household lack the money it would need to pay higher prices. That is an unsolvable task.

In an international order of currency, characterized by convertibility, monetary policy could only have a conditioned influence on the two factors in1 which are exhausted its possibilities for becoming effective: namely, on the level of interest rates and the liquidity of banks.

When, in a given situation, monetary policy influences level of interest rates or bank liquidity, it does not have a direct effect on the price level. It can only have an effect on prosperity, i. e., practically on investment and employment, no matter what the cause of inflation might be. But then the question poses itself, whether it is possible to counter with monetary policy and yet not jeopardize full employment.

This question stands in the back of all our deliberations today. It becomes complicated because in addition to currency stability, collective-bargaining autonomy is also considered a great asset of economic policy.

Thus the task would now be: maintaining collective-bargaining autonomy and full employment as well as a monetary policy which reacts on the boom in such a way as not to destroy full employment. Added are international aspects which result from the fact that monetary policy is again today encased in international convertibility.

Bombach

What chances, if any, does monetary policy have in an age of convertible currencies?

Pfleiderer

It is not true that there are no international currency frontiers at all any more. The international flow of money must pass over a certain doorsill in order to get from one country to another so that the height of this doorsill - in individual nations, for political reason, it is of various heights - does give a certain sphere of movement to monetary policy, but only, after all, within these limits.

Thus, if we step over this doorsill, we must always count with the possibility that our monetary policy insofar as it aims at an increase in the rate of interest, is frustrated by inflows of foreign exchange, the result of an inflow of capital, induced by the increase in the rate of interest. Or, if monetary policy affects the boom and the level of prices, it possibly is impaired in its effect by the increase in the balance of transactions and through the watering down effect of balance-of-payments surplusses.

In very deed, relatively narrow limits have been set for currency policy today.

Körber

I should like to refer to the recommendation of Professor Pütz, who said in his keynote address: "New ways must be found for labor and management to meet". I should therefore like to make my previous statement more explicit by means of a concrete suggestion.

We have at present in the Federal Republic 21 million employed; of these eight million work in productive industry. The far greater part, therefore, is employed in state-owned service institutions such as post office, railways, education, etc., in which the state as employer and therefore as one of the two parties in collective bargaining is active functionally. Just as productive industry, being capable of standardizing its production, is the pacesetter for wage increases, the service installations should be pacesetter for measures aimed at savings because in them the state, with its tasks of guiding the economic policy, is one of the parties to collective bargaining.

This could be done in that beginning with collective-contract bargaining in nonproductive industry, the earners go back in their demands, for instance, from 10% to 8%, and employers go up from, for instance, their offer of 6% to 8%, and the difference between 6 and 8, i.e., 2% would not be paid to the earners but would be paid into a fund of the Labor-Management Bank.

When and to what extent payments are made from the fund and how much earners should receive directly or whether schools, hospitals, or old-age homes should be established, would be decided by the administration of the bank, i. e., by labor and management, to which, in this case, would also belong the state and also the Central Bank.

They would also determine whether and how much of the capital of the fund would be invested abroad as a measure to slow down a boom, or how much should be paid out to break a recession.

That, really, is not compulsory savings but rather communal savings. Just as health insurance contributes to the maintenance of the nation`s health, in the second industrial revolution one should also be able to expect people to make a contribution to the maintenance of the currency. If labor and management do not become active themselves in this direction, the state will be forced to take a hand and collective-bargaining autonomy might be curtailed.

Friedrichs

Of the suggestion made by Dr. Körber one thing is surely correct, namely, the thought that the earner`s share of national income depends, among other things, on the use the earner makes of the income. But from this realization of economic policy to draw the conclusion that compulsory savings be recommended for earners; that does appear very problematical. You practically suggested it when you recommended transferring a portion of wage increases to a fund with which a "Labor-Management Bank" could then operate. Apparently you tried to make your idea for savings palatable to the labor unions that way. But we have no inclination whatsoever to deny a certain portion of a wage increase to the earner and invest it, a portion that would otherwise have been paid to him in cash; going over his head doing so. Practically, your suggestion is a variation of compulsory payroll investing and compulsory payroll investing means compulsory payroll savings because these savings do not result from the free decision of the individual.

Disregarding the moral problem evoked by compulsory savings; disregarding also the internal union problems which would arise if we agreed to such an idea, compulsory savings are also surrounded, after all, by problems of economic policy, i. e., in my opinion, that at some time these sums collected compulsorily will have to be released, otherwise these savings would have no rhyme and the entire operation no reason.

What happens at the precise moment the savings deposits can be drawn against? Will these amounts flow into consumption again or have savings and consumption habits changed in the meantime in such a way that one can count on a greater part or the preponderant part of these amounts saved by force being left in the bank and thus kept out of the circulation of incomes?

I believe, with compulsory payroll investing one places the cart before the horse.

One hopes, merely by a postponement - one mostly speaks of five years - that the real problem how savings and consumption habits in Germany can be changed and solved. I incline to the opinion that Mr. Tacke voiced here. He placed great stress on fostering private voluntary savings and that with concrete, material incentives.

Bombach

Don`t you believe that in the case of these savings funds which are entirely free, there is danger that they will be turned into cash at exactly the most unsuitable moment?

Friedrichs

This danger always exists. I do not know how high our present savings are but if they were placed on the market today they would immediately trigger an inflation.

Bombach

I would not like to underestimate this danger.

Friedrichs

At the moment we have voluntary saving and it has evidently been possible to have these savings kept in the banks.

Bombach

What if an inflation psychosis should come? There were indications of one once already...

Friedrichs

In that case everything is lost anyway. But on the other hand, if you release sums saved by force - you have to release them sometime - then the danger is evidently much greater that this money will be placed in circulation.

Bombach

I want to admit that it would be foolish from the very start to fix a period say, to tell them after five years the money would be released. The idea is, after all, to create a flexible fund which one can use for purposes of boom policy and can release when necessary.

Friedrichs

But that would really be an even more abstract form of savings for the earner. That would mean he would be credited with sums over which he could dispose at a certain, undefined moment, far in the future, depending upon the opinion of the political powers that be.

Bombach

I share all your doubts, Mr. Friedrichs, nevertheless I deliberately present counter-arguments. I could even offer you an additional important argument to which Professor Ortlieb referred in another connection. The savings funds also carry interest. After, at the most, a decade the funds would be so large that just paying the interest on them would pose another problem. Possibly, if the state of the economy demanded it, the interest would have to be frozen.

Friedrichs

There is also the other argument that after five years - assuming a five year period - the sums frozen be compensated by releasing the first contributions then; that practically the entire problem constitutes an increase in income which has merely been postponed five years. I do not believe that a solution can be found by means of compulsory savings.

Thus there is the following alternative: either one agrees on a certain portion of the wages which is not paid to the earner in cash but is credited to him personally on some account, and of which he can dispose at a time to be determined. That is one possibility. But it excludes the other possibility that money be used for schools and such things.

Körber

And why not? Getting a better and more comprehensive education is, after all, also a meaningful share of national income.

Bombach

It is not, after all, a case of today establishing a fund that is to be dissolved again after a certain number of years. New moneys would flow into the fund ad infinitum and that to a steadily increasing measure, growing with the growth in income of the nation. At the same time sums are continuously released for consumption, and it is an experiment in calculation for an insurance actuary how the capital of such a fund would develop.

Friedrichs

As far as I know, social security invests its money in securities and suchlike.

Bombach

I believe we should make a note of the suggestion as presented. It is an idea which would be worth pursuing further but which we cannot fully discuss now.

Gehrels

I should like to recapitulate on a few points. Concerning the question of savings, there is a very simple means which the United States applied periodically: curtailing consumer credit. For a time we had a law which made it possible for the Central Bank to curtail consumer credit. Why is this not done in the

Federal Republic, why does not the Federal Central Bank apply this instrument in order to curtail negative consumer savings?

Bombach

I believe that this would not be effective for lack of volume. Compared with the United States the volume of consumer credit is, surely, too small yet.

Gehrels

I wanted mainly to say something about the political possibility of price stabilization which Mr. Stohler and Mr. Brechling denied. They thought that full employment was the main objective of every country and that for this reason it would be impossible to stabilize prices. I am thinking mainly of the United States.

It is not true that we had a creeping inflation, except for the time shortly after the Second World War, when price controls were instituted in 1947, and then again during the Korean crisis. Except for these two short periods, we had a very stable price level. During the past 10-12 years, the consumer price index even remained practically stable. It is even claimed that the minor increase was a statistical illusion.

Andreae

But you did not have full employment in the United States.

Gehrels

For this price stability we did, it`s true, have to pay a price. I mean a rate of growth that is too low. We did not have, as you said, full employment but less than full employment with a minimum of three million unemployed - according to official opinion probably the right minimum. But we frequently reached five and up to six million unemployed, which is entirely unnecessary. We, therefore, paid a high price for price stability. But, and this is the essential point, we were politically prepared to do so not only in the Eisenhower but also in the Kennedy administration.

May I also refer to German experience in the first years after the currency reform. At that time I, by all means, had the impression that the Federal Bank was more strongly interested in price stability than in full employment; first because of the stable prices and also because of the question of foreign exchange, a question that at that time was still difficult to solve for the Federal Republic. Thus, there also was political readiness here too. Something similar could also, at times, be said concerning Italy.

May I just say something further briefly. It was claimed here that when wages increase to an inflationary degree, a substitutionary effect would result.

I believe that this is basically wrong; for if wages rise, the price of machines also rises, the more so since machine construction includes a greater share of labor cost than the production of consumer goods. One would thereby start an entirely undesirable effect and a negative substitution.

Bombach

Mr. Gehrels wanted to tell us among other things that we are chasing a phantom if we look for the causes of a "creeping inflation". In his country there is no gradual, continual decrease of the value of the currency. Inflation there is not a trend phenomenon, rather the price level increases by jumps: the price curve takes the form of steps. Non-recurring events let prices rise steeply (for instance, the Korean crisis), after that they remain stable over a longer period of time. If here with us it were a matter of this type of inflation, the diagnosis and the therapy would have to read differently then for a steady, trend-like price rise.

We should, at this point, break off the discussion concerning promoting savings and, in view of the late hour, turn to the third circle of problems, namely, the relationship of labor and management and wage policy. By considering the programs for promoting savings from wages, if one is considering the institutionalizing of savings activity, then the limits of the general boom policy were overstepped already anyway.

Naturally, my contribution to the discussion should not be taken to mean that general measures of boom policy should now be eliminated from it entirely. To the contrary, for us it is precisely a matter of the relationship between general boom policy and the process of setting of wages. For that reason the resume of the discussion up to now will be postponed until the end of the meeting.

Friedrichs

We must now turn to the question in how far a narrowing down, or a curtailment, or perhaps even discontinuance of collective-bargaining autonomy would do better justice to the problem of price rises than in any way at all the present system.

Professor Pütz said a while ago that in his opinion the antagonism of the two parties to collective bargaining no longer fits into the present landscape, that the two parties to collective bargaining should get together in institutionalized forms so that a state wage policy not come into being. In your statements, as in certain parts of the opinion rendered by the OECD, lies the possibility that a government wage policy would better be suited to solve the problem of wages and prices than collective-bargaining autonomy.

Bombach

I have always claimed the opposite.

Friedrichs

A government wage policy, after all, is only then an alternative if one has the impression that it would be in a better position to exert a quieting influence on wages and prices than the present form of wage policy. That, hovewer, I should like to deny energetically.

In today`s discussion the Dutch example has been mentioned frequently. Mr. Tacke has already said that in the Netherlands a discussion is in progress concerning the system of setting wages which is unsatisfactory for the labor unions and has not brought excessively good results for the overall economy.

The EEC has collected figures on the development of wage costs in the various countries of the EEC. For me it was extremely interesting that from 1954 to 1961 both in Germany, where there is complete autonomy of the parties to a collective contract, as also in the Netherlands with practically a government wage policy, the increase in wage costs were almost the same; the wage costs per production unit were even higher by a few per cent in the Netherlands than in the Federal Republic. I believe that that is a remarkable indication for the ineffectiveness of a Government wage policy.

Bombach

Yes, but you must not forget that in Holland the workers had to catch up quite a bit with their wages.

Friedrichs

It has become evident in Holland that actual wages differ completely from wages established by government. Our German problem, that wages established in collective contracts differ from actual wages, is much greater there because government-set wages are tied to growth in productivity while actual wages adjust themselves to conditions on the market. These market conditions during the past years were such in Holland that wages rose considerably more than actually planned by government. It is, after all, not unimportant for our discussion to know this fact.

If you, Professor Pütz, said that a government wage policy would come if things did not change . . .

Pütz

Yes, that is what I fear.

Friedrichs

. . . then I must say very plainly that this government wage policy will probably be no improvement.

Pütz

No, Mr. Friedrichs, you misunderstood me! I am not in favor of a direct government wage policy, rather I believe that it will be unavoidable if the price-wage spiral is not brought to a halt while at the same time maintaining collective-bargaining autonomy.

Friedrichs

Even national-socialist wage policy did not, after all, intervene in this sense.

Bombach

Are you sure?

Friedrichs

In any event it did not function in the sense that wages determined by government were actually wages valid in practice.

Müller

Is collective-bargaining autonomy actually an absolute value which must be maintained under all circumstances? Of course, it should be kept as long as possible. For regulating working conditions on the labor market is valid what Hermann Heller in past days said of the state, namely, that it must exercise the regulating function of the final resort. Not only are they imaginable but there actually have been times in which the state fulfilled this task. I remind you of the years `30 to `33, which knew compulsory arbitration. Of course, they were unpleasant years but I believe I am able to recall talks with labor union friends, with my old friend Arndt in Dresden. At that time, through intervention in collective contracts still in force, wage cuts had to be instituted and he said that such agreements could only have been reached with great difficulty if the state had not made an appearance, as it were as a higher force.

Tacke

And the result?

Müller

Is it really so absolutely impossible that we shall not be placed in a similar situation again, a situation in which perhaps the democratic state alone has the authority to take necessary steps one could not expect neither labor nor management to agree to voluntarily?

Tacke

I fear that then political conditions in Germany would change very quickly. That is the constellation of this political charter.

Bombach

A series of important problems remain to be discussed. Mr. Pütz advocated the thesis that all efforts to overcome the price-wage spiral would be in vain as long as there was a general demand overhang. You recall his sentence: it is precisely inflation that makes labor unions strong and industrialists soft (naturally one could also say of the industrialists "strong", namely strong in relation to the possibility to pass along the cost of higher wages).

With this we touch upon the question whether by removing the demand overhang a fundamental objective, namely full employment, is not thwarted. The interdependencies between full employment, growth and collective-contract policy are to be discussed. The problem of the pacesetter labor unions, finally, will lead us to wages coupled to productivity, an idea which, although variously declared dead, has celebrated its resurrection recently in a series of articles in a large newspaper. One of my colleagues advocated the opinion that despite all its recognized weaknesses, one should not judge the idea of wages coupled to productivity harshly: why forego the groundhog if we dispose of no better instrument for forecasting weather, was his motto.

The problem of pacesetter labor unions is unequivocal: there are always branches of industry with above-average growth in productivity that can easily stand large wage hikes. Other branches of industry go along in an effort to maintain traditional income relationships. In the final analysis the average wage rate of the national economy can very easily increase faster than the total average of work productivity, especially if the entire nonproductive industry follows the general growth in nominal wages which, naturally, it is its right to do.

Stohler

The problem of coupling wages to productivity really brings us back to the first circle of topics, to the diagnosis, where we first differentiated between wage push and demand pull, and I ask myself whether that should lead us to a third type of inflation, a paradoxical "inflation conditioned on productivity". In Switzerland some time ago was advocated the following thesis: if in one sector productivity rises and wages are therefore increased, then by reason of the claim to equality of wages, i.e., a postulate of justice, wages will increase in all those sectors in which productivity did not increase. An inflationary imbalance between profits and costs comes into being. This case cannot be disputed; it is a process that now and again could be noted.

Now a further possibility appears to me as an interesting extension of this case, that has been considered much too little. If, namely, productivity rises and wages are increased in a single sector, while in the other sectors productivity remains constant and wages do not rise, still an inflation can be triggered - through this apparently conservative policy related to productivity in a single sector. After all, the workers of the sector with rapid growth will spend their additional income not only for the products of their own sector but for the most part for products of other sectors, where productivity did not rise. They will thus increase demand in the other sectors. That will increase the price level in the other sectors, although wages were actually only increased in the sector in which productivity increased. Here I would speak of a "type of inflation conditioned on productivity".

Gehrels

You cheated a little bit, I believe, when you claimed that the overall demand rises.

Stohler

The overall demand rises because as a result of the growth of productivity in one sector the overall demand has increased. In addition, I assume that the cost curve is not infinitely elastic.

Linder

In this discussion one must always start from the average productivity of the entire national economy. If, however, one employs wage policy in such a way that is does not surpass the average growth of productivity of the entire economy of the nation, one does not in doing so exchange it by any means for a guarantee of price stability. For an essential precondition for price stability within the framework of such a policy is an unchanged income structure, therefore, a condition not given in a growing economy in which adjustments of the income structure necessarily take place.

Bombach

That presupposes that investments, government spending, in short all components of demand grow proportionally.

Linder

And that, exactly, is a precondition which in the present development of the economy we cannot foresee.

Bombach

If you want to attain price stability in this way, you must always foresee the productivity increment of the coming year, you must not use the increment of the past. Usually we act in the belief that that which was in the past will also be in the future. In Germany at the moment, there is a certain anxiety that what has been in the past will in future be somewhat different.

Tacke

Naturally, we cannot say for sure how our productivity will develop in the future. One can, however, I believe, base oneself absolutely on the experiences of the past 10-12 years. Viewed as a whole, till the end of 1961, wage income had not essentially surpassed productivity. Despite the fact that labor unions do not guide their wage policy by wages coupled to productivity, in reality a certain adjustment has taken place. This adjustment results in part therefrom that we have an extraordinarily differentiated wage development in the entire industrial sphere. I have the feeling that, when we speak of these wages, we always see an overall quantity that does not exist in reality.

We have an extraordinarily sharp difference in wages within all industrial groups. Then we have the difference geographically over the entire Federal Republic. For instance, between Hamburg and Bavaria it amounts to some 20%. Then we have a third difference in wages or better a differentiation, namely, the difference in wages between men and women. Here in the Federal Republic we have a differential of 30 % although in the EEC we are not by far the worst any more.

If then we view the development of productivity in the industries which have this wage differential, you will note that here again there is an almost steady development or a type of balancing, i.e., wages did not rise essentially beyond the increase in productivity. We actually did not get the overhang of wages over productivity until 1961 in which a relatively sharp rise in wages of more than 11 % in the overall average was registered. This year it will not be so much. The productivity too will not be so large. But if one starts with the rate learned from experience, it is not out of the question that next year we shall again have strong increases in productivity because heavier investments for more automatic machinery are made to eliminate labor that has become more expensive; and, in addition, at the moment there is a tendency to conclude collective contracts for longer periods.

A few more words regarding the pacesetter push. That is pretty much a fictition. Naturally it is obvious that when a labor union concludes a "good" agreement, the others attempt to come close to that agreement. But even if they conclude an agreement for the same percentage rate, they never actually reach the height which the so-called pacesetter labor union reached; due to the wage differential.

Spiegelhalter

May I say something about that, and specifically about the figures, Mr. Tacke. What during the past twelve years has developed at the same rate were mostly real wages and productivity. The comparison cited by you should, however, refer to the development of nominal wages, i.e., that wage development of which we here speak as the "wage problem". Wages established in collective contracts are, after all, always nominal wages, cash wages. However, statistically speaking, these have risen faster than productivity in the past years in the overall average for economy. While productivity, referring to all persons employed, has increased by about 75 % since 1950, the wages per earner have risen about 140 °/o (1950-1961), that is almost twice as much. The rise in prices, naturally, eliminated the imbalance again. Therefore, one cannot say that these two magnitudes of development have always had a parallel growth rate. Instead, in former years too, there has been by all means, a considerable discrepancy between the two.

As regards differences in wages, these differences undoubtedly are present in the amount mentioned, between industrial branches and geographical areas. But for us it is much more important whether there has been much of a change in this wage structure in the course of the years. And if one follows the growth lines there - I have attempted it - then one sees an extraordinarily great parallelism, at least after 1952; it is true that adjustment immediately after currency reform brought with them for the moment sharp deflections of the structures but after only a very short time we had an astonishing parallelism in the development of individual wages. That, after all, is decisive for the problem we are here discussing.

Bombach

I wanted to say one more thing, Mr. Tacke: you know the conditions within industry better than I. You might be right about that. But one thing remains: there is a very strong divergence between the progress of productivity in the industrial sphere and in nonproductive industry.

Tacke

How do you expect to be able to measure the productivity of a civil servant?

Bombach

Official statistics publish an index concerning the real gross national product. That would presuppose that the contribution of the public sector to the gross national product and with it its productivity can also be measured. I myself have always voiced greatest doubts.

But no matter whether we can measure exactly or not: we know that in our economy there are spheres with little chance for increasing productivity, and that these spheres are mainly to be looked for in nonproductive sectors. But the persons employed in those spheres cannot be penalized for it. Poor progress in productivity is not their fault. Justifiably so, they want to link up with the high increase in nominal wages of the industrial sector and this results in the effect described.

Tacke

If seen that way, yes. One can, however, also see it differently.

Bombach

Our question should better be phrased: what can one do against it? That is the problem you mentioned, Mr. Frisch. How can we see to it that in the industrial sphere wages grow slower than industrial productivity rises, so that persons employed in nonproductive industry can also share in economic progress, and do so with prices remaining stable?

Tacke

That means you must transfer the surplus of productivity from the producing industry to other areas. The attempt, by the way, was made long ago and failed. It dates from the years 1951-1952 when the attempt was made with counterpart funds of the Marshall Plan to foster the productivity in special spheres of our industry. From plants reaching higher productivity through such means, profit quotas were to be given to other plants with deficient productivity. With it, to begin with, an equilibrium of productivity was to result, the goal being a general and level increase of productivity. It was the so-called pilot Programm. The attempt failed. Why? Because such a program cannot be carried out in a free economy.

Bombach

All in all: we must note that a serious problem exists. Naturally one can interpose that realistic politics and productivity cannot be quantitatively measured in nonproductive industry. This made the price index as an average of all prices indeterminable. Because it is not measurable, ergo there can be no inflation!

Küng

Is this not a case of a wrong appraisal? One always speaks of nonproductive industry and its low increase in productivity. It appears to me that these things are seen wrongly. The fact is that in nonproductive industry - take banks, insurance, trade, etc. - wage rates rise, that thereupon the price of services in nonproductive industry are increased and that despite of it consumers are still ready to pay the higher price, not only that but they even devote an ever growing part of their income to this nonproductive industry, be it for the services of the state or those of private enterprise.

The subjective evaluation of the value of goods of nonproductive industry is thus a given fact, there is no shopping for prices in this sector. What here is the crux of the situation - it appears to me - is not at all so very much the so-called quantitative productivity and its development, but the qualitative productivity. The only standard to define this qualitative productivity naturally lies in the development of overall earnings of nonproductive industry. And we note that they increase at least as fast as those of productive industry. I conclude therefrom that evidently the productivity in nonproductive industry increases equally as fast as that in productive industry.

Bombach

Mr. Küng, we can`t withdraw from the affair that easily. That is the problem which we have discussed at length in the OEEC when making international comparisons. In trade, for instance, it is extraordinarily difficult to differentiate between quantity components and price components. Which criteria should one apply in case of an increase in the profit margin to differentiate between a price rise and qualitatively improved marketing (a better presentation, additional functions)? But surely we cannot merely say that an increase in quality is always then a given fact when consumers are willing to pay higher prices.

Küng

No. I don`t conclude that from it.

Bombach

Otherwise you could also say that when a haircut suddenly costs four francs instead of two francs, it must therefore be twice as good.

Küng

I do not draw that conclusion.

Bombach

But that is how I understood you.

Küng

Then it is a case of a misunderstanding as I never spoke of an improvement in quality.

Gehrels

If for this purpose you wanted to set up a production index, you could either take the new prices or the original ones. Neither with the one nor the other, would you get an increase in per capita output.

Küng

Output, after all, cannot at all be measured sufficiently quantitywise.

Gehrels

Except that hair is now cut electrically.

Bombach

Not at all, I would say. In my opinion many branches of nonproductive industry also offer the possibility to take the quality factor into consideration and thus also the differentiation between quantity and price.

Küng

The problems are not true for all of nonproductive industry. The difficulties in this case are insurmountable. You can only start with the nominal value increment.

Bombach

I repeat: one cannot generalize. In the sphere of distribution one can at least measure turn-over quantitatively. In the transportation sector passenger-kilometers and tonnage-kilometers can also be measured, communications can also be quantified. And much more can also be measured.

Tacke

The banks measure it according to the turn-over per employed.

Bombach

Yes, that`s where productivity investigations were made. Bookkeeping postings per hour, etc. actually can be measured, that is not at all impossible. I believe in the case of the civil servant it is not such a hopeless case for all that. Take the entire fiscal administration. There you can very well measure today with how much personnel you handle certain operations and how this is improved when introducing electronic machines. In administration, of course, it is very much more difficult.

Küng

It appears to me that the term physical productivity in nonproductive industry is highly problematical and as a result one should resolutely forego qualitative measuring of productivity in this sense. Instead of it one should merely base oneself on the sum earned, which, after all, has a homogenous dimension and can be noted. It is then to be referred to the number of employed or to the working hours and this quantity relationship is then to be studied in a time context.

Bombach

But we have suddenly slithered into the index theory. This is a fringe area of the theory of inflation.

Naturally, we should know what price stability is if the policy of the stabilization of the price level is being discussed. It is, however, impossible fully to discuss these complicated things. Phychological factors play a great part in this case. Dangers always threaten when people feel that the value of the money is falling. As long as they believe that with higher prices for services in nonproductive industry they actually obtain more, then there is no cause for worrying.

Friedrichs

I wanted to return to the general topic. Coupling wages to productivity of the industry in question would lead to a wage differential simply not tenable. In so far I agree with you. But also the wage-productivity thesis within the meaning of the economy as a whole has in my opinion, become antiquated in the meantime, at least since the report issued by the Scientific Council of the Federal Economics Ministry. By the way, the forecasting of the development of productivity is also problematical as the Blessing report showed. Blessing at that time estimated 4 % but the actual development was above that, and by much. Also the experience in Holland shows that in forecasting productivity one was always too conservative.

Pütz

To go by the future is much too problematical. If the known development of productivity is made our basis, i.e., development of productivity in past years, and we tie wages to it, then these incomes purchase those consumer goods which actually were produced with "yesterday`s" increase in productivity, if I may express myself like that. Between increase in productivity of production and an increased supply of consumer goods on the markets, there is a certain time lag.

Friedrichs

That, in the concrete case of the Federal Republic today, would mean that we must be guided by the productivity development of the past year which very evidently was higher than it will probably be this year.

Pütz

It would be wrong to prognosticate far into the future. One should not on hand of incomes anticipate a product that is not even on the market yet.

Spiegelhalter

We must clarify this problem in order to obtain an objectification of distribution in the next succeeding year. In the stricter sense of the word it is not exclusively a problem of wage-productivity.

Profesor Pütz, didn`t you advocate the opinion that all who had claim to the national income should coordinate these claims so that demand of the coming period would not exceed supply? Then it can only be a matter of distributing what will be available in the coming period.

Pütz

The size of tomorrow`s national income depends far-reachingly on today`s productivity.

Bombach

Actually there are two mechanisms to be discussed and to be kept separate.

The older process, used in several countries as a "panacea", is to conform nominal wages to cost of living. This policy is clearly directed at the maintenance of a standard of living already achieved. In times of fast and steady growth of productivity, it is actually a not very aggressive policy.

Wages coupled to productivity, on the other hand, have as their content proportional share in growth. Expansion and not stabilization is the objective in this case.

The idea of wages coupled to productivity was surely born of the effort to place a ceiling on wage demands, a ceiling that could not be overstepped without endangering price stability. In this way, too, something was to have been stabilized: not the standard of living but the price level. It was believed that the argument of productivity would have a moderating influence on wage policy. Today, however, we must seriously ask whether precisely the opposite did not take place. Perhaps the thought of coupling it to labor productivity has all the more carried an expansive element into wage policy.

Mr. Friedrichs, you said, that the idea of wages coupled to productivity had essentially died. But it still sticks in the heads of the people. After all, we still balance new wage hikes against progress in productivity and thus we are implicitly looking for norms for the wage policy, something we otherwise expressly abjure.

Friedrichs

Naturally.

But the idea of wages coupled to productivity is dead here in Germany. It is not even advocated by employers any more. That the development of productivity has a certain influence on wage policy, and thus also on our demands, that I should not like to deny. But that is something quite different.

Andreae

I should like to add something to that.

The income tax rate too is basically evolved from the depths of the soul. That is, we propose something or other and say, we feel it is just. The more just if, moreover, we can formulate it mathematically. But basically it is thus: First step: adjusting to the price level, i.e., stabilization of the supply situation. Second step: adjusting to the productivity level. Result: the workers, for instance, receive the same share of national income as heretofore. Third step: we cast loose from all these things and follow our own concept of justice in regard to sharing in national income. That appears to be the content of Mr. Friedrichs` process of thinking. If all groups proceed like that, everyone will receive the share of the national income that conforms to his power. All attempts to couple one or the other group to a so-called objective standard, that`s ideology or something like it.

Bombach

I, too, belong to those who do not think much of a so-called objectification of wage policy, no matter through what self-propelling process. What, actually, does the much cited "wage policy from points of view of the national economy" mean? It is impossible to convince one of the large, active groups that coupling income to an index is sensible, just and correct.

There is no doubt that the group which accepts tying wages to an index will be cheated. As soon as it is assured that at least one in the national economy will support price stability and will pay the bill in the end - i.e., will be satisfied with that part of the cake which is left - the others will see no reason to hold back with their wishes. If the wage earners practice moderation - to use the present popular term - then the public budgets do not need to do so and a policy of tight money need not be carried on either, which, as President Pfleiderer will admit, is always unpopular. It is only when wages begin to constitute a massive threat to the stable price level, that action will be taken. As long as there is no well-coordinated economic policy - perhaps it is Utopian anyway and there will always be a tug-of-war - in my opinion, no single group can acquiesce in playing a purely passive role.

Linder

In this connection one should pay more attention to an experiment which is presently taking place before our eyes and, although not yet completed, merits our interest as a model case of "planning in a free economy": I mean the English example of the National Economic Development Council. In the final analysis what is at stake in this experiment is to have labor and management with their opposing interests together with neutral experts sit down at the same table on a higher plane; in this body labor and management have the opportunity to discuss their concepts of economic policy and to face each other as well as essay the attempt to reduce divergent opinions to a common denominator. This body has thus primarily the function to act as a clearing for economic policy and is not to be qualified as an element of a planning mechanism, efficient from top to bottom, which would not be possible anyway in a free order of economy. Naturally, such an organization must be based on an institution which can furnish the basic data and documentary material being discussed. And further a decisive role in such a concept is played by the principle of voluntariness, because only under these preconditions can it be coordinated with the regulatory elements of a free economy. Not completely to be denied, it is true, is the danger that a "planning" structured in this way can increase the angle of inclination of interventionism.

Bombach

I am very grateful to you, Mr. Linder, that you have thrown the final idea into the debate. Coordinating the claims to the national income, around which our entire discussion has been orbiting, can be accomplished in very varied ways. Up to now we have shrunk from naming an extreme, namely, the economic budget, which many a liberal economist sees as an instrument of the devil. Although I do not recognize as valid the causative chain which is supposed to lead from the economic budget over managed economy to collectivization and to the doom of the free world; but I also have little sympathy with faith in miracles which one continues to place in this instrument. In the time immediately after the war it was the dernier cri, but in the meantime many illusions have been destroyed. During the coal crisis some avowed spectics called forthe economic budget; how was it supposed to have helped had we really had one? Today it is again demanded energetically, this time in connection with the discussion of wage policy.

Mr. Linder uses the term of a clearing for economic policy which I personally find striking, and a happy choice. What is meant is a process of mutual getting-to-know and getting-to-understand, which possibly could also function in a large country. One must get together and agree on priorities. An economic budget could only be the result of such a process of coordination but it could never replace this process, i.e., it cannot stand at the beginning. Personally I am not able to imagine that such a mutual getting-in-tune could end in a definite arithmetical plan in our country. A prospective overall accounting is always, as far as I am concerned, only a - in my conviction very useful - basis for discussion.

Brechling

Perhaps I should contribute something from my immediate experience with the English experiment. Selwyn Lloyd established the new National Economic Development Council as successor to the unfruitful work of the "three wise men". This council, which meets every month or two, consists o.f representatives of labor and management and of the government. The Office that employs 30-40 economists, statisticians, etc., prepares both economic analysis as well as suggestions for economic policy, which the members of the council discuss and then present to the public. The government may, but naturally does not have to, accept the advice of the council.

In the Office we do not limit ourselves to the problem of inflation because the task which was given us consists of an investigation into the reasons for lack in economic growth. As concerns the income policy, the opinion has been formed among the "backroom boys" of the Office that these problems could be solved more easily in an economy that grew faster, as was the case in England in the post war years. For this reason, we investigate whether and by what means work productivity can be increased by four to five per cent a year.

We arrived at this opinion for the following reasons: although a curtailment of the collective-bargaining autonomy would perhaps contribute to the solution of the problem, we do not consider such a curtailment politically possible. The second anti-inflationary measure consists of retarding real demand. Unfortunately our empirical studies have shown that thereby the productivity of labor and also the growth of the economy is retarded too. Nothing else remains to us, therefore, than to accelerate labor productivity with all the means at our disposal and thus to decrease the pressure of wages on the price of goods.

Bombach

Under the presupposition that higher wages are not demanded in spite of it.

Brechling

This precondition is naturally necessary. In the framework of the empirical analysis of the problem of inflation concerning which I have already reported, I view the diagnosis approximately as follows. Unemployment of 2 % causes actual wage increases of approximately 4 % a year. Our goal should be to increase both labor productivity and actual demand by approximately 4% because then the price of goods as well as unemployment would remain constant.

It is possible, of course, that our efforts to increase labor productivity will lead to further wage increases. It is a case, then, of which means of economic policy we use in these efforts. At the present time I am working in the National Economic Development Office on this problem, which causes us very many difficulties.

Frisch

We cannot avoid the necessity of a minimum economic budget. We must, after all, know in some way what is happening and you do have to realize that a regulated expansion of stability is not possible without curtailing free collective bargaining, the autonomy of labor and management. We again and again meet in all cases a contradiction between practice and theory.

The French planning experiment, basically up to now, has had negative results in the wage sector. The experts did determine by how much the national income would have to rise, and the goal was reached, but wages rose more rapidly. In France, in a purely labor-unions sense of the word, free collective-bargaining plays a subordinate role. Most of the wages in private industry are negotiated plant by plant. There are collective contracts but they are actually nothing but framework. They deal much more with fringe benefits such as paid working days, vacations, paid holidays, working conditions, etc. In the public sector the state is the employer, identical with the government, and does not know free establishment of wages. The attempt is made not to let wages go beyond the per-capita increase of national income; but that also has not been successful up to now. As a result we have a more or less creeping inflation.

Knapp

I am astonished that we have been discussing collective-bargaining autonomy for hours and have not thought about what we mean by it: The "classical" collective-bargaining autonomy of individual unions or a "national wage policy" of the central labor federation. For example, in the Tripartite Commission of Austria do not sit, as you would think, the representatives of individual labor unions, who, according to law have collective-bargaining autonomy, but exclusively the delegates of the labor federation who really are not competent for wage policy. This, therefore, causes a serious internal labor union problem: how should the labor federation urge a unified wage policy on the individual labor unions - no matter how it be defined? One of the reasons which caused the Austrian Labor Federation to back a Tripartite Commission was, in any event, precisely the hope to apply a brake to its own unions with the help of this commission, as the unions had grown too strong for the Federation.

If some joint Council for wage questions or other is created, the central authority mans it on both sides. Autonomy, in its meaning up to now, namely, the autonomy of individual labor unions is, thus, in this way, also lost, even if not to the state but to some parent organisation. This problem becomes especially critical if one attempts a "national wage policy", that agrees on a certain average wage increase: in how far then, namely, the actual wage increases differ from this average, this the individual trade unions would logically have to negotiate among themselves - and no longer with the employer associations.

Pütz

Collective-bargaining autonomy we understand to mean that the state does not set wages, but that wages are the result of negotiations between labor and management. That, after all, is not a curtailment of collective-bargaining autonomy. Collective-bargaining autonomy, after all, concerns only therelation-ship between state and labor union, and in Austria this collective-bargaining autonomy is untouched.

In our attempts at a therapy we are groping for new forms in a completely new historical situation. All are essays; but I consider them uncommonly interesting and promising for the future. Every sidestepping in the direction of a curtailment of collective-bargaining autonomy appears to me to be a side-stepping of the problem.

Bombach

Unfortunately, the late hour forces us to break off the discussion at an especially interesting point. We were unable to discuss exhaustively all the ideas that Mr. Pütz presented in his address. Other problems, as was to be expected, were added.

Let me attempt to draw up a short resume. I want to begin with the interesting contribution of Mr. Brechling. Perhaps anti-inflation policy has always been considered too much as a curtailment of monetary demand. Today one is coming to think more of supply. An expansion of supply does the same for price stability and no one will deny that it is much more desirable. For this reason the call in England for more growth and for this reason the establishment, there, of a special body of experts. Gerhard Colm, as advisor of the American government, expressed something similar and longer ago already. We always shall have nominal wage increases at a certain annual rate, entirely without regard for the economic situation of the moment. If we consider it as a given fact, then the degree of inflation is evidently less the stronger productivity rises. We have found no panacea this evening. Who would be surprised! Perfectionist reform plans are suspect from the very start and I welcome the fact that in this discussion none was offered. At any event, in this large and heterogenous circle, we agreed on how the way out could not be found and where it should not be looked for.

Foremost and above all things, collective-bargaining autonomy was not tampered with. We came to the conclusion that everything possible should be done to maintain it. Secondly, no welcome found all those plans which looked for a way out in an autonomatism, in a type of "ideal wage formula". Wages coupled to productivity appear to have been thrown out in our discussion.

Mr. Pütz, as I already stressed, has very decidedly acknowledged himself a theoretician of the demand pull. Of the cost-push theory, at other time so strongly championed, today astonishingly little was heard. We followed the argumentation of Mr. Pütz and then discussed the problem of overcoming the price-wage spiral essentially as a problem of a sensible reciprocal adjustment of the various claims to the national income. The problem of distribution always stood in the wings. This, in my opinion, is a very logical procedure. The demand overhang creates, thus tells us Mr. Pütz, the climate for inflation. Therefore, precautionary steps must be taken to adjust expanding demand to lagging growth of supply. But who is to rétrench? This is a problem of distribution, therefore a purely political problem, not susceptible of a formal-theoretical solution.

Demand can be reduced through an increased savings activity. Measures to foment the savings were discussed in extenso beginning with the mere suggestion to do so with a light hand up to compulsory savings and compulsory payroll investing. All appeared agreed therein that more savings were highly desirable; however, referring to the measures most to the purpose, a fundamental difference of opinion appears to continue to exist.

The process of reciprocal adjustment of claim to the national income occupies us most, and rightly so. This discussion on an international plane was, for this reason, highly informative because it has shown us the very varied ways which are tried in the various countries. Some of these ways seem to promise success, others have proven themselves to be wrong. Mr. Pütz has shown us how in Austria, in friendly, talks, they - let us say - scrapped into togetherness. He judges that the experience was a positive one, but we do not know whether we can right off transfer the method to a large country. Mr. Frisch described the special conditions in France, Mr. Brechung the, for the time being, negative experiences in England and the new attempts now being undertaken. The Dutch example was variously referred to. In Germany a body of experts is to be tried. We heard interesting facts about the United States and finally the Swiss representatives were able to contribute essential observations. All in all it appears to us as if this very international exchange of experience could contribute much to taking a good step forward.

At the close, I want to say "thank you" to all participants for their active cooperation. Especially, however, we must thank our host; the atmosphere of this house surely contributed to the fact our discussion on a certainly delicate subject went on in such a pleasant manner.

Körber

Ladies and Gentlemen:

May I cordially thank you all for this international evening of discussion, rich in content. In our times of quite differentiated preconditions regarding economic booms, it is necessary to come to an understanding about the basics, starting point of economy and economic policy. As we call to witness a social statehood and are intent on further developing our economy in the free industrial society, candid objective discussion is of decisive importance, for only thus, in the interest of all, can we attain to processes that carry us forward. The arguments advanced today have prepared the ground for an objective discussion on the circle of problems surrounding the price and wage policy in the Federal German Republic.

I again sincerely thank you all for your lively participation in the discussion and I thank especially Professor Bombach for his stimulating and disciplined moderation of the discussion, as well as Professor Pütz who, through his address, gave this evening its scientific form.

The discussion was closed with the recommendation to invite the Eighth Round Table for December 10, 1962, with the topic "The Price-Wage Dynamic in the Federal Republic" (Speaker: Dr. Hans-Constantin Paulssen, President of the Federal Association of German Employer Associations, Cologne; Moderator: Professor Dr. Dr. Fritz Voigt, Hamburg University).