
Interview

Burns: Schmidt can't be taken seriously

Part II of a March 2 interview with former Federal Reserve Board Chairman Arthur Burns, made available to EIR. Dr. Burns is a prospective U.S. ambassador to Bonn.

Q: What do you see as the solution to West Germany's long-term structural problems, such as energy and wage inflation?

A: First, Germany must watch their budget. Most important is the enormous turnaround in their balance of payments, which is now deep in deficit because of their oil bill. The only solution for Germany will be to address the problem of scarce energy resources, which we also have not addressed, and which the Reagan administration will finally address. The Reagan administration is right. We need a sharp increase in the price of energy in order to curtail demand. Not only must there be decontrol of oil prices, but we should decontrol natural gas, which I believe the administration will do, and after that we should impose a large tax on gasoline and on heating oil to further raise the price of energy. We must curtail demand by whatever price necessary to achieve conservation. Germany faces the same problem.

Structural inflation, in Germany as in the U.S., is also caused by the high level of wages. Wages are a real problem. Look at Chrysler, which is paying \$18 to \$19 per hour, ridiculous, extraordinary for a bankrupt company.

There are only two ways to reduce wage inflation: 1) hard times, by which I mean severe unemployment not for three or four months, but for several years; or 2) wage controls or new wage legislation to weaken the power of trade unions.

We must have adjustment of wages in steel, in agricultural implements, and a number of other industries. In order to speed this we must tackle the minimum wage, the second point; we need overall reform of basic labor legislation, reform of minimum wage, reform of the Davis-Bacon Act, which is highly inflationary. Reagan does not want to tackle this now, with the budget and tax controversy, but he will begin to tackle it by the end of

the year.

Q: How soon will this come about in Germany?

A: Schmidt will have real difficulties with this in Germany, he's facing tremendous political problems. Immediately, the most important thing Germany can do, which the Bundesbank is doing, is to maintain strict control over the monetary creation, to maintain a very restrictive monetary policy. [Bundesbank chief] Karl-Otto Poehl just came to see me last week and said that he is very concerned about pressures within Germany for monetary relaxation.

Q: What is the response to Chancellor Schmidt's open complaints about high U.S. interest rates in Washington?

A: Chancellor Schmidt has a loose tongue, he's a very volatile man, although, of course, I know him well personally and I'm very fond of him. He came here a few times while I was chairman of the Fed and I told him that his criticisms in fact were very helpful dealing with other countries. I'll explain what I mean. Last time Mr. Schmidt criticized me publicly, I got a call from a member of Congress, one of my critics, who said "The impudence of that foreigner. From now on, I'll never criticize the Fed again, and I'll always defend you." Schmidt is careless.

Q: Why has there been no public administration response to Schmidt's complaints?

A: The administration itself is split; many people are highly critical of the Fed, led by the Undersecretary of the Treasury Beryl Sprinkel, my good friend from Chicago. He believes the Fed was too loose last year and now must tighten more consistently.

Q: What about opposition from the other side, like Schmidt's?

A: That is Schmidt's opposition, and there is no opposition from the other side, the Fed was too erratic in its policy, and that's that. So when Schmidt criticizes the Fed for being erratic, why should the administration people who want a firmer monetary policy say anything? Furthermore, Donald Regan has not discovered what his policy is yet.

I had a full talk with Poehl, he's opposed to the Schmidt initiative for a common industrial nation policy to lower interest rates. It's a silly policy.

Q: Do you see continuation of these interest rates and the other wage adjustments you mentioned as a way to ease the U.S. and Germany into the postindustrial society?

A: I can't discuss this very important subject over the telephone.

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