
Documentation

Helmut Schmidt on the depression danger

West German Chancellor Schmidt took the same message he gave to his colleagues among heads of state at Versailles in June to a San Francisco audience July 22.

The German leader states bluntly in the excerpts printed below that America's high-interest-rate stance will bring about a world depression; that America's responsibility is to make the world economy work as a matter of its primary national interest.

But Schmidt limits his own effectiveness in suggesting solutions: where high interest rates are concerned he can do no more than wrongly recommend more budget cuts, something he must suspect cannot happen in any event. While he calls for a greater American role in world development, he nonetheless deplores population growth, which is a precondition for development. The genial Chancellor therefore has cast himself in the classic role of the reasonable man who cannot imagine why his friends and neighbors are taking such actions as to undermine both themselves and him.

Excerpts follow from the speech, titled "Responsibility and Cooperation in the World Economy," the Chancellor delivered before the Bay Area Council in San Francisco, California. Emphasis are in the original pre-released transcript.

... In the tense relationship between West and East the *economic basis of free societies is of strategic importance*. Economic policy is therefore at the same time security policy, not only and not even primarily in the sense that you need money to pay soldiers and to buy weapons. *International policy is indivisible*. . . .

[T]here can be no doubt that the industrial nations of the West are under great economic and social strain. All of us suffer from *unemployment* that is higher than at any time since the 1930s. . . . If high budgetary deficits, the overstraining of financial markets, and hence much too high interest rates in the U.S.A. continue, a second worldwide depression will become probable. . . .

People are becoming increasingly concerned and

fearful. . . . I need only recall the growing drop-out mentality observable in many countries, the increasing criticism of technical progress and the uncompromising rejection of new technologies. These trends have to be taken seriously, precisely because they could ultimately endanger our whole system. . . .

Instead of joint exertions to resolve the problems the world could drift onto the *downhill path of economic disintegration*. This would be tantamount to a return to the 1930s. And we have almost reached the point of lapsing into begging one's neighbor. To be frank: *my greatest concern is that the West will plunge from recession into depression*. . . .

There should be no trade protectionism, neither in steel nor in agricultural products, neither in cars nor in electronic equipment. *There must not be a trade war*: neither among North America, Europe, and Japan, nor vis-à-vis the oil-producing countries, nor in relations with the East. . . .

The Federal Republic's trade with the East, especially with the Soviet Union, has often been wrongly assessed in the United States. . . . As regards the gas pipeline deal between Western European companies and the U.S.S.R., there is no likelihood of our becoming dependent on the U.S.S.R. for energy supplies. Only 5 to 6 percent of Germany primary energy consumption will be fed from Soviet sources in the late '80s. The gas imports will diversify our vulnerability by reducing our dependence on imported oil. . . .

We cannot afford to break existing agreements. Thirty marks out of every 100 marks of our GNP are [earned] abroad by exporting German value added. Who would still want to trade with us if we broke our contracts? . . . By claiming the right to extend American law to other territories [the sanctions effort], it [the U.S. administration] is affecting not only the interests of the European trading nations but also their sovereignty. The fact that this decision was taken without consultations does not make it easier. . . .

All industrial nations are expected to show special consideration for our economic relations with developing countries. Further development aid will remain indispensable. . . . We know that development aid will prove futile if the population explosion in the countries of the Third World is not curbed or halted completely. . . .

No country can fully evade the effects of the high American interest rates. I have already mentioned the fact that there are 1,600 billion U.S. dollars in circulation on the Euromarkets. Seventy-one percent of these credits are being denominated in U.S. dollars. . . . Thus, when dollar interest rates are kept at a high level owing to the budget deficit, this irresistibly affects interest levels in the other countries. . . . These interest rates hamper productive investment not only in the United States, but also worldwide. . . .