throwing all the cold water we can on any talk of credit controls. We don't take them seriously on that. Anyway, we've never heard anything from the White House on credit controls, and I can't believe that Baker would move against Reagan.

Q: But this is the Senate Majority Leader. . . .
A: I still don't take him seriously. These guys are desperate, they pop off, they make any statement to get press; they've just been beaten up by their constituents . . . and they're desperate to look like they're doing something. But there is no evidence they're sincere—no legislation.

Q: What about the Melcher resolution on interest rates?
A: Same thing—it's just a resolution, no force of law. It can be ignored. It means nothing, and will be ignored.

Q: So far Congress has had to swallow your interest rates. But does this mean they won't take the budget cuts?
A: Look, we've said that the only way we will put rates down is if they take those budget cuts. And the Congress doesn't like it. Right now, the only way the administration can get any cuts out of this Congress will be if they take half the cuts out of the defense budget. If Reagan wants to cut $30 billion in fiscal 1982, and he has to, then he will have to look to defense for half of that, $15 billion, or a third minimum, at least $10 billion. He can't go back to the social programs and bleed them, he'd loose even the Republicans. His program is rotting.

Right now I hope that Stockman has won cuts in the military budget, which will allow cuts to go through. It will upset the national security lobby, but I think Reagan is popular enough to pull it off.

Q: But if Congress won't take the cuts? Then what?
A: Then we follow through on Volcker's promise to tighten.

Q: Are you ready to bail out all the bankrupt S&Ls? You are going to have quite a bit of inflation then.
A: The Fed is the lender of the last resort. The last thing we want is for the S&Ls to go belly up. If the time comes, the money will be found, and you know as well as I that there is not enough in the Federal Savings Deposit Insurance funds. Whatever money that would be necessary to stop a financial collapse would be found.

Q: Found?
A: I think more money than the insurance funds would be found.

Q: Found?
A: Printed, found, spent as a deficit, whatever necessary.

Interview

Why Schmidt rejects U.S. economic policy

On the eve of U.S. Secretary of State Alexander Haig's arrival in West Germany, Chancellor Helmut Schmidt has delivered a sharp attack against the "ruinous" economic policies of the Reagan administration. "Not even in a dream would I think of trying such a policy here," he said, in an interview with the Rhein-Neckar Zeitung *(*RNZ*) published Sept. 8. Schmidt reiterated his often-repeated warning of recent months against an austerity policy like that of Heinrich Brüning, the German chancellor of the early 1930s who paved the way for Adolf Hitler.*

Asked about the likely outcome of the current controversy in West Germany over the federal budget for 1982, Schmidt responded:

Schmidt: I will have to place this question in a broader context: how the economic situation of our country develops over the next 6 or 12 months is to a much greater extent dependent on how the world economy and the European economy develop. When the discount rate in America remains over 20 percent, and when the American finance minister himself has to take out 10-year loans at a fixed 15 percent interest rate, when this gigantic American economy—225 million people—continues to make the mistake of creating and maintaining economic conditions in which the interest rates of the whole world for normal credit customers are raised to over 20 percent—then less strong economies are forced to keep their own interest rates even higher in order to get their share of the pie of international liquidity. In other words: if someone sitting in an OPEC country with a financial surplus to manage can get over 20 percent in New York, then Paris has to offer him more, and Rome or Milan even more. Therefore the interest-rate floor in France or Italy is over 20 percent. The fact that our businesses are still attracting investors at interest rates of 15-16 percent is a sign of how great the trust of the international credit markets in the German economy is.

We still receive money from abroad—for example from Saudi Arabia—otherwise we would not be able to finance our balance-of-payments deficit. They invest a large portion of their money as credit to us although our interest rates are under 20 percent. But if this high

American interest-rate floor continues, then no economy can endure it, and particularly the construction industry cannot. Therefore I say once again: the future economic development of this country depends upon world economic developments: interest rates first, and oil prices second. . . .

I think that investors who in recent times have transferred their money to New York, for example, will soon bring it back again, since they are afraid of losses in the value of that currency. But for the time being the high demand for the dollar has driven its value up. The high dollar value, on the other hand, causes concern since it makes our oil prices rise faster than in the past.

RNZ: Does the German federal chancellor have a recipe to prevent this monetary policy development?
Schmidt: We can neither catch up with the dollar interest rates, nor do much to change the dollar rate, nor do we have influence over the oil price. These lie outside the reach of the German economy. At the world economic summit in Ottawa, we explained to the American President that these high interest rates were ruining the world economy. He said that unfortunately he could do nothing to change the situation. He had inherited the problem from his predecessors, and the policy would have to be maintained for reasons of stability. That is his conviction, which we could not change. But I believe that U.S. economic policies will be changed too.

The first effects of budget policy can be discerned. I see the tendency for economizing in expenditures as a sensible one. The greater the savings, the more will the American Federal Reserve be spared from having its monetary policy play the sole stabilizing role. And thus the sooner can one hope that the interest rates will come down. . . .

What I fear the most is that countries could have recourse to trade protectionism toward foreign competition. This tendency is particularly very strong in the U.S.A., even stronger in France—we ourselves have lesser inclinations too in that direction. But if these protectionist tendencies are strengthened, then the result will be a rapid increase of unemployment. One cannot exclude that the foolhardy behavior of governments and parliaments will substantially weaken the world economic situation. What the Federal Republic of Germany could then do on the national level is an open question.

RNZ: In this case revision of the current austerity program could certainly be excluded?
Schmidt: The idea of many bigmouths who are influencing the public today and have stated over the last four to five weeks, that we in Germany have to economize even further than our proposed budget demands, is in my firm opinion absolutely false. The legislative measures we have decided on could of course be construed differently, as many of my party friends advocate, for example. But the level of austerity cannot go much higher. We are now—federal government and states together—cutting in the order of 1 percent of GNP, or 1½ percent of the national income, which will be available to the state to spend, since the state will not get revenues from those whom the cuts affect. If the state were to spend this 1½ percent of the national income, it would have to borrow this money on the capital market. And this demand for 15 billion [deutschemarks] on the capital market would drive the interest rates still higher, and our construction industry would go through the floor. The state has saved this amount so that it would not have to demand so much capital and so could keep German interest rates lower than American or French, English, or Italian. But we cannot go any higher than this. If we, instead of the present 1 percent of the gross national product, were to economize by 2 percent, I fear that it would produce deflationary effects like the time of Heinrich Brüning.

RNZ: Is the way out so different for the Federal Republic and the U.S.A. that opposite recipes—here tax increase, there tax cuts of 25 percent to 1983—could bring about stability and an upswing?
Schmidt: This tax cut has led Reagan into deficit. When a state denies itself income by a tax cut, but does not cut its expenditures correspondingly, only shifting resources from the social sector to defense, then it has to borrow money—thus driving the interest rates up. I will not pass a qualitative judgment on the American "policy mix." But not even in a dream would I think of trying such a policy here. Furthermore, our society is infinitely more sensitive to unemployment than American society.

RNZ: Is it correct to say then that you would exclude an employment program like that being discussed heatedly in the [government] coalition?
Schmidt: I will not rule that out, but I will say clearly: national self-help cannot prevail over international developments. . . .

RNZ: [Question about the relationship between these issues and U.S. defense policies.]
Schmidt: I will not defend Reagan's policy here, and neither will I criticize it. But I will make the following point quite clearly: it is an error to think that Europe's security can be secured by money. It is men who defend, and so one must have them. Second, they must be willing to carry out their duty. Third, they must be trained to do it. And fourth, one must have money for armaments. This is the sequence: Soldiers, motivation, training, and equipment. I would only take seriously the criticism of many American commentators concerning European defense efforts if those same people were arguing for the reintroduction of the draft in the U.S.A. . . .