

"THIS LETTER IS UNFORTUNATELY STILL VALID TODAY"

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Karl Blessing died during his vacation in southern France last week aged 71. He was the president of the Deutsche Bundesbank from 1958 to 1969. The last major interview before his death was granted to SPIEGEL editor Leo Brawand for a nonfiction book, under the title "Where is the German economy heading?" that will be released next autumn in Munich based publisher Kurt Desch.

From the interview we have extracted the following excerpt about inflation:

QUESTION: Mr. Blessing, it is possible to have full employment, price stability and a balance of payments equilibrium at the same time?

BLESSING: This is an idealism that is very beautiful, but not feasible in this world.

QUESTION: Other countries don't take it as seriously with monetary. You know the quote of the "Financial Times" in London, there is always the German hunter Schmidt, who does a false step?

BLESSING: I would assume the wrong step and would correct every time needed by a change in exchange rates, that is how far I am today.

QUESTION: That would ideally mean floating exchange rates or very large bands for exchange rates?

BLESSING: I would not introduce floating exchange rates, but I would ask: When does a balance of payments imbalance occur? If a fundamental imbalance is present, every two or every three years, you have to change the mark currency exchange rate.

QUESTION: What do you think of the Brussels proposals, to get closer to monetary union in Western Europe initially through a coordinated monetary policy for a transitional period from 1971 to 1973, and especially in budgetary policy with a binding coordination rule ?

BLESSING: It will be extremely difficult, a very difficult undertaking, the good Mr. Werner, I know him very well, I often had contact with him, is an idealist. If his plan were possible it would be wonderful. But the conditions are different. How do you want to force a national parliament to make certain things or not to do them?

QUESTION: Exactly, because all that has a domestic political effect

BLESSING: ... internal political effects that can lead to other election results or anything else. How can you do that? The French - the good Giscard d'Estaing is considered a monetarist. He wants to move forward through the currencies in the EEC. But when it comes to give up sovereign rights or to pool, then the French Government does not want to participate. So what is the logic in that. If a wage explosion comes as Italians did in the fall of 1969 or à la France in May 1968, how do you want to have a single currency, a monetary union? This is only possible if all the politicians are willing to waive sovereign rights and to transfer the sovereignty to a headquarters in Brussels.

QUESTION: At a central European central bank?

BLESSING: Yes, if one were to create a European central bank, a Federal Reserve System of Europe, which is autonomous from the governments - and within this system governments would only be able to finance budget deficits to some degree - then you could get it right.

QUESTION: It is to be expected, that the dollar flow to Europe because of the American Chronic payment deficit contributes to our inflation ...

BLESSING: ... it has contributed to a significant extent

QUESTION: ... that inflow could be slowed down through the construction of such a European currency, so to speak, as a counterweight to the dollar.

BLESSING: There is no doubt that we could, if we had really the political will in the EEC, to form a hard currency block whose rates could then fluctuate against the dollar. We could then leave the dollar standard, that we have today. Because in practical terms we a dollar standard.

QUESTION: Yes, sure, and is it not that we - for example, and also you during your time at the Bundesbank and still today - by retaining American US Treasury securities, and large dollar holdings and by not exchanging dollars to gold we substantially support the Americans ...

BLESSING: ... and have supported the Americans. I tell you today that I myself personally feel guilty regarding this question. I should have been more rigorous with America. The dollars that arrived in Germany should simply have been rigorously exchanged to Gold,

QUESTION: With the support of the central banks, the Americans have never come under pressure?

BLESSING: No, they have never come under pressure with their monetary policy. They always made promises: Well, next year it will be different, in the next two years we will get the budget and everything in order, we are strong. They are strong as an economic nation. But they never made it, there was always something else. Then came the Vietnam war, President Johnson and his financial policies, with a 25-billion-dollar budget deficit in one year. All those were reasons for the inflation. I often said to my American colleagues: It's always continues with you, then the story with the troops started.

QUESTION: You mean the threat of the Americans: If you do not support the dollar in this way, we pull the troops back from the Federal Republic?

BLESSING: It was never a verbal threat, but the threat was always there in the background. The former High Commissioner McCloy was once at the German Government and said: Listen, we had a Senate decision and there will be soon a majority that might want to get as back. We have to do something. He called me on a Sunday afternoon at half past three at home and said: "I have to fly back tonight, can we meet?" And I told him. "My dear McCloy, your situation is clear, you have a balance of payments problem and nothing more. You've seen we have been reasonable and have not converted our dollars to gold. I am willing to give you that even in writing for a certain period. Unfortunately the letter I wrote still applies today.

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