

Chancellor Helmut Schmidt Outlines His Program for Combating the Second Energy Crisis (July 2, 1979)

Abstract

On the return flight from an economic summit in Tokyo, Helmut Schmidt shared his ideas for combating the renewed increase in oil prices with a journalist. He indicated that his priorities were saving energy and developing alternative energy sources to reassure citizens that prosperity would continue.

Source

Giving Priority to Saving Oil and New Technologies

Federal Chancellor Helmut Schmidt is convinced that it won't be long before the G7 summit in Tokyo is viewed as a "world economic caesura" of perhaps the same economic-historical significance as the so-called oil crisis of late 1973. This is what he said in an interview with Süddeutsche Zeitung editorial staff member Franz Thoma on his flight back from Tokyo. The limit on oil imports and the declared intention to develop new technologies for renewable energy were the most important decisions made at the summit.

The major industrial countries, which together account for more than half the world's GNP, want to free themselves, according to "their declared will," from their almost helpless *dependence* on the volume and price dictates of the international cartel of oil producers and become more independent. "Our country consciously participated in these decisions and throughout the months of preparation," Schmidt emphasized. In response to a question about the longer-term effects of these summit decisions on German energy policies (the subject of a policy statement that the chancellor will give on Wednesday in the Bundestag) and on daily life, Schmidt offered a concrete example and explained that in a few years' time very few people would be able to afford a car with high gasoline consumption.

The Car of the Future

More and more people will switch to cars with low gasoline consumption. "The auto industry will have to adapt to that." The chancellor said that he would live to see the day when *battery-driven* cars increasingly replace gasoline-fuelled ones. He also believes that hydrogen-powered motors will be developed within the next decades. According to Schmidt, the federal government's energy program of 1973, with its first and second continuation, had set the right course in any case by moving toward *saving energy, substituting oil with coal*, and meeting the remaining demand with *nuclear energy*. The government will stick to that. And other industrial countries will adopt this course as part of a common strategy in the medium term. As Schmidt explained, the German suggestions met with widespread acceptance in Tokyo and were incorporated into the concluding declaration.

Accelerated Rate of Development

The federal government will now push for the sustained and rapid development of new technologies, above all for coal gasification and the use of solar energy and geothermics, also so that nuclear energy can be dispensed with in the future. "These basic guidelines must be implemented more quickly." According to Schmidt, the Bundestag, the federal government, industry, and the unions will have to work together on this. "But above all, our citizens will also need to be convinced of the inevitable necessity of this." (The leader of the government is evidently thinking of greatly increasing the financial resources designated for the development of these technologies.)

In Tokyo, *Japan*, in particular, found it hard to agree to the limit on imports. According to Schmidt, the countries of the European Community, the United States, and Canada were already aware that they would have to put considerable restrictions on and make considerable adjustments to their national economics. The Federal Republic is no longer free in its oil import policies, the federal chancellor admitted, but it has to make the very same sacrifice. Schmidt said that they succeeded in finding a fair equalization of burdens in Tokyo. The fixing of different oil import limits [for different countries] takes the various structures of individual national economies into account. There is no standard recipe for all.

Oil Register: Educational Effect

Schmidt (who in principle supports price-setting for gasoline, like heating oil, through the market rather than government authorities, and who wants to maintain it for as long as possible) expects that the agreed-upon international *oil register* will serve over time to “unmask those companies that previously pushed up prices in an irresponsible way through individual actions on the spot markets.” If the OECD, for example, publicly reprimands a multinational or national oil company, and backs this up with figures and data from the register, then it won’t be without effect—at least this is what the chancellor hopes. On the other hand, however, he warned of price hysteria and attempts to cheat by getting around the higher energy prices.

When asked about the necessity of a dialogue with *OPEC*, the chancellor said that those parts of the Tokyo communiqué that pertain to oil producers weren’t originally supposed to include “such harsh language.” The wording of *OPEC*’s Geneva price decision led to a change, however. Nevertheless, at the same time, the concluding declaration in Tokyo also made clear that there was a willingness to negotiate with the oil suppliers. “I would like to say, though, that I don’t think much of mammoth conferences, like the ones just held in Tokyo and Geneva.” The chancellor also hopes that the World Economic Summit will become a less elaborate event. He expects that the next meeting on the island of San Giorgio in the Venetian Lagoon will already provide a more intimate context.

Avoiding Deflationary Risks

With regard to the recent return of a stronger upward price trend in the Federal Republic, the chancellor thinks little of attempting to counter or even reverse this *increase in the cost of living*, which is dictated by oil prices, through monetary or budgetary actions. Such a measure would have a deflationary effect on the Federal Republic—with all the attendant consequences for employment and growth. But it would be at least equally harmful to try to make up for the oil-related decrease in real income through nominal wage and salary increases. “That kind of policy would lead directly to an inflationary development.” Apparently, examples of this can be found in other countries.

In the short term, as Schmidt explained, economic policy has no workable cure-all, either in theory or in practice, to counter the effects of the increase in the oil price; rather, it can offer at best some possibilities for greater equilibrium in the medium or long term. In any case, printing more money in order to pay higher oil prices was not a solution. The *growth in affluence* will be *slowed* as a result of the most recent *OPEC* decisions to accelerate the rise in oil prices, but it won’t come to a halt.

Source: Franz Thoma, “Vorrang für Ölsparen und neue Technologien,” *Süddeutsche Zeitung*, July 2, 1979. Republished with permission.

Translation: Allison Brown

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