



Interview: Tim Schanetzky

Humility and Hubris

BpB: Mr. Schanetzky, in situations of crisis, people search for habitual patterns and explanations. Can one provide assistance from a position of economic history?

TS: Humility is appropriate here, although the desire for orientation by comparison and prognosis is understandable. Empirically, the historical reconstruction of earlier crises is fraught with problems and it is even more difficult to draw conclusions from the past. For instance, historical data on economic activity is usually based on estimates far into the 19th century, often against the backdrop of a certain normative viewpoint. On an X-axis of time, we can indeed designate snapshots such as bankruptcies, market collapses or innovations within the past 200 years. (LINK TO THE DIAGRAM) However, it is empirically hardly possible to represent the effects on the Y-axis in a precise manner or to even make generalizations. Beyond this, the most recent experiences underline how distorted the perceptions of a crisis can be. Look at the breakdown of Lehman Brothers, as an example. Although it instigated a panic reaction and set in motion a worldwide chain reaction, in contrast to public perception, it did not mark the beginning of the actual crisis. Problems in real estate and commodities markets occurred 18 months prior to the Lehman collapse. Even trade had already started contracting. Economic advisors had already warned of a worldwide banking crisis early in 2007.

BpB: How can theories about economic cycles help us to understand the overall picture better?

TS: We can certainly describe an ideal type of a crisis that can be observed over and over again. The term crisis thereby designates an often shock-style turning point at the end of an economic boom that is already characterized by strong economic imbalances such as price bubbles or a lack of capital. Often this turning point is initiated by loss of confidence in the financial markets. What follows is a downturn, a lower turning point, a comeback and finally a new boom so that as a whole, cyclical fluctuations can be discerned. People have been

continuously arguing about the determination of the specific form of these waves and their origin. So, for example, one differentiated between business-cycles of medium length (Juglar-cycles) shorter investment cycles (described by Kitchin), cycles of business sectors and cycles of technological innovation. Kondratjew was even believed to have recognized business cycles that lasted half a century. (LINK TO THE DIAGRAM) In addition, there are models that attempted to describe the relation of economic growth and the distribution of income (Kuznets). Indeed, what these models have in common is that they did not stand up to empirical testing by modern statistical methods.

BpB: Such models therefore ceased to provide political guidance?

TS: Yes, and currently the difficulties can be observed in an exemplary way. Most press articles, essays and books try to determine in which part of a crisis (understood as an ideal type) we are finding ourselves right now. And the market participants – savers, investors, and governments – also assess their risks based on these considerations. But as the situation is still unclear, uncertainty follows. However, politicians or central bankers cannot avoid making decisions by pointing to uncertainty, and while economists are still weighing in on the contradictions of their models, they decide pragmatically out of necessity. After all, despite all the uncertainty, it is not only the German politics during the crisis of 2008/9 that is based on a rather binding interpretation of the situation: It started from the idea that the cyclical slump could be counteracted by energetic anti-cyclical action of central banks and governments. This was intended to reinstate trust and stimulate the economy. This applied not only to the bailout of the banks but also for un-tested instruments such as the massive expansion of short-term labour or the car scrapping incentive (“Abwrackprämie”) directed at the car industry. Behind this stood the hope that the extraordinary drop of foreign demand would only last for a short time.

CONCERNING THE RELATIONSHIP
OF POLITICS, ECONOMY, SCIENCE
AND PLANNERS

**BpB: Was the collaboration of
nation, economy and science
simpler in older times?**

TS: Yes, actually, in the Federal Republic of the Sixties and early 1970s, there was a belief that it was possible to plan and steer the entire economic development (“Globalsteuerung”). This attempted to stabilize the business cycle and provide constant economic growth. At the time, a great belief in scientific knowledge shaped all social areas and could be found both in the Western and in the Eastern hemisphere. Such technocracy was based on the experience of economic reconstruction after the Second World War which led to great gains in prosperity in both the East and the West. However, the oil price shock of 1973 was a turning point. It made clear, that scientific prognoses had proven to be unreliable and in practice, a clear and non-contradictory analysis of the situation was impossible. And even if the situation was clear from a scientific point of view, politicians hardly ever acted as rational as the technocrats had originally imagined. Priority to market regulation originated in that crisis, and monetary policy took the start. This did not begin with Thatcher or Reagan, but with Willy Brandt and the Bundesbank, who implemented monetarism for the first time in 1973.

**BpB: What were the decisive considerations for
this?**

TS: The background was shaped by the erosion of the monetary system of Bretton Woods (1944). While the dollar back then was linked to gold, the rest of the Western currencies were tied to the dollar by fixed exchange rates. The change of any exchange rate was then a political issue: political decisions were required in order to adapt exchange rates to market conditions. Countries with a constant trade surplus, such as the Federal Republic, had to continuously adjust the value of their currency against the dollar. This required a political decision in favour of making export goods more expensive. As this was politically unpopular and therefore always occurred too late, it led to imbalances of payment and imported inflation. Speculators often exacerbated the situation by betting on the unavoidable adjustments. At the beginning of the 1970s, an experimental floating of the exchange rates took place due to the pressure of currency speculators. Finally, price finding was handed over to the market early in 1973. This was the prerequi-

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Interview with Tim Schanetzky, historian at the Friedrich-Schiller University in Jena

Economic crisis, planning and national agency from a historical perspective.

site for a fight against inflation which was already high before the oil price shock: In 1971, it was five percent and in some markets it was much higher. Compared to 1969, the construction of a single government housing unit cost almost 50 percent more in 1972. The basic idea was that in future, the market was to determine exchange rates, not politicians. The debate from back then is definitely comparable to the present discussion about politically determined currency parities, for example, between the Chinese Renminbi and the American Dollar.

Has the relationship between the state and the economy changed?

TS: Politicians were more self-confident back then; of course there were powerful and well-organized lobby groups in the 1960s as well. However, it is remarkable how assertive a Federal Minister of Economic Affairs such as Karl Schiller countered their demands. That was due to his special legitimacy as an economist and to the financial possibilities of that time. The boom filled private and public coffers and a widely shared conviction was that the state had to grow. John Kenneth Galbraith coined the keyword for this in 1958 when he spoke of the “affluent society” and denounced public poverty where there was private wealth. The term was also indicative of the West German situation. Therefore, massive investments of the 1960s were directed in particular towards the public infrastructure: Universities, hospitals, schools, public swimming pools, town halls and kindergartens were to be newly constructed or expanded. In this sense, macroeconomic control was well-suited for a time in which there was much to distribute and a lot to invest.

**BpB: Have the planners used their window of
time?**

TS: In the 1960s, planners encountered a paradisiacal situation. Assignments were numerous; political intent was on their side and provided the legal instruments they asked for. Resistance, such as in citizen action committees or other forms of civil disobedience hardly existed before the end of the decade. We should not to forget that most

of the anti-cyclical economic programs aimed at domestic investment. If something was to be done against the economic slump, this meant: spending even more money on additional investment in concrete. However, this system fostered a planning hubris that not only has damaged the reputation of planning itself, but also resulted in spaces and infrastructures of extremely questionable quality – as one can see here in Essen-Steele, where urban renewal began in the late 1950s. It provides a good example of another important experience: public investment cycles last very long. For an urban renewal project such as Steele, twenty years are a realistic time frame. Many individual characteristics of this project can therefore only be explained by the unpredictable ups and downs of governmental support.

ANALYSIS, EVALUATION AND FINANCIAL PLANNING

BpB: How is public action evaluated, and is it subject to monitoring?

TS: Apart from elections, there is no institutionalized performance review. But the policy of macro-economic stabilization was very well aware of that need, as the example of the German Council of Economic Advisors (implemented in 1963) shows. The "Five Wise Ones" are intended to continuously evaluate the economic development and political action. For this, the Federal Parliament equipped them splendidly and helped them with extensive access to information. The quality of their evaluations, brought forward every year in November, is correspondingly high. Aside from that, the advisory board – sought after or not – produces special surveys on specific problems. Therefore, the board is conceptualized as an instrument of diagnosis and public control. The government, by contrast, is legally bound to take a stand to this diagnosis and to present publicly what "treatment" it intends to apply. This happens in an annual economic report to the Federal Parliament. In time, this specific form of communication has been increasingly reduced to a public ritual and the exchange of two numbers: nowadays, only the annual growth prognoses of the advisory board and the federal government appear in the news.

BpB: Are there perhaps comparable diagnostic instruments for the EU?

TS: Yes, there certainly are comparable instruments, especially since the European statistics or rather the diagnostic instruments of the OECD have been constructed at the same time and in the same spirit. One must also consider that the EU has an entirely different budgetary structure, where in

particular the agrarian budget is very dominant. The political mass for anti-cyclical maneuvering was therefore always very small. Viewed from a historical perspective, Brussels was closer to Keynes and the influence of the planning addicted French was discernable early on. With respect to this, Bonn always stepped on the breaks – even when planning euphoria was rampant in Bonn.

BpB: In the EU there are strong comparisons among each other as to who pays and who receives. Do the different levels function well together?

TS: The respective perspective is very important – am I a net contributor or do I belong to the recipient countries? Ireland, for example, has been a recipient for decades and has financed large parts of its infrastructure with EU funds. The EU is correspondingly popular among the population. By contrast, when a project is sponsored by EU funds in a German provincial area, the dominant impression might be that one's own tax money has only taken a detour through Brussels. If one looks at the continuing controversy about the inter-state fiscal adjustment (Länderfinanzausgleich), the same phenomenon can be observed within Germany. The question of how the effects of structural politics in general are to be evaluated appears to be more decisive. In North Rhine Westphalia, for example, those regions that have found themselves to be in the blind spot of structural support are economically extraordinarily robust. In contrast to the strongly supported Ruhr area, the regions that were shaped by the textile industry in the North and Northeast of the federal state had a worse starting position in the race for public funds. Businesses were smaller and the loss of many jobs affected women in particular. The difficult work with medium size businesses did not garner as much publicity as, for example, the settlement of Opel and Nokia in Bochum. However, it turned out to be much more sustainable in the long run.

RELATIVATION OF PLANABILITY

BpB: Does planning have any prospect of success?

TS: Planning certainly is indispensable. However, if I look at the rapidly changing fashions of planning from a historical point of view, I become skeptical. In terms of philosophy of science, planning is prone to metonymies: Overwhelming importance is assigned to a single aspect, which is made into a general key term – be it "risk society", the "post-industrial society" or the "knowledgeable society". In this sense, around the turn of the century "culture" was the great theme in the competition between

cities and regions. Everywhere decision makers had apparently read Saskia Sassen's work about the "Global City" and correspondingly started to invest in philharmonic or new museum buildings. A concert house however does not make a "Global City" out of Bochum.

BpB: At present, is there a recognizable agenda of investments and are sufficient debates taking place in your opinion?

TS: What sticks in my craw is that the motif of "empty public coffers" developed a life of its own and therefore can be used even in times of a global budget surplus. Again and again there is talk about abstract distribution mechanisms. Even the protracted maintenance of a public infrastructure often stemming from the Sixties is only talked about on the level of symptoms. What is supposed to be the public interest today? Who in society is supposed to contribute? Which needs have priority? Such a debate is not in sight. It ultimately took place during reunification, when the intended equalization of living conditions set out clear goals and time plans. Since then, every discussion about the obvious misdirection of the solidarity pact remains stuck at the beginning. Everyone is aware that political decisions taken more than twenty years ago have led to structurally weak and heavily indebted Western communities still supporting economically strong Eastern regions. However, every honest discussion about this is killed by the cliché of a so-called "debate of envy" (Neiddebatte).

BpB: How can the current discussions about large projects be integrated into this context?

TS: Beyond newly coined words such as the "Wutbürger" (literally, "anger-citizen"), I cannot discern any essential changes with respect to the early Seventies, where the actual cut should be made. Prior to this, large projects could have been implemented without intense debates, even when they affected many people. The urban renewal of Essen-Steele, for example, led to over 4000 people being relocated. There was no public resistance at all. Only a few years later, citizen action groups mushroomed and soon there were almost 80 groups that fought against the demolition of workers settlements in the Ruhr area. Since then, there is a basic problem: How can individual affectedness and public protest be weighed against decisions that came out of a transparent democratic process? Structurally, I cannot differentiate between the construction of a nuclear power plant in Brokdorf and the ongoing construction of the new central station in Stuttgart. It is a fact that formal procedures aiming at public participation can only function if there is a polit-

ical will to make it work. And all too often, this is lacking.

BpB: How are we supposed to react to the prompting of (inter)national competition of nations that makes it easier for large projects and investors, since these decisions are enacted swiftly and without much bureaucracy?

TS: I can very well understand why planners appreciate a context which allows them to implement their ideas without friction. It must be appealing to design entire cities and then to see them constructed within months without disclosure requirements for construction plans, citizen participation, or long lasting administrative court procedures. I have however not yet heard of any planner considering to settle there with his family permanently. Apparently, planners also appreciate the degree of freedom of our society, where, when in doubt, parliaments and courts have to decide what is in the interest of the general public and what must be tolerated by the individual. However, this also implies that individual interests must step back sometimes – even if that is painful. Whoever bought a house in the South of Frankfurt and is now immediately affected by the aircraft noise due to altered landing lanes, has a right to be angry. His or her peace has been disturbed and his or her property loses value. In view of the economic significance of the airport, such disturbances will however be unavoidable. And in more than a few cases, the airport existed before the houses were built or purchased.

LIVING, WITH HISTORICAL DIFFERENCES

BpB: What would be a historical message to a contemporary generation of planners and decision makers?

TS: As a historian, I plead emphatically for humility. In Europe, the areas of planning and their structures have grown through decades, often centuries. It is necessary to take this into consideration in every planning process. By contrast, aspiring to similar living conditions for all regions, I consider this to be an idea which itself should be historicized. It embodies the ideas and feasibility concepts of a specific era. To accept historically grown differences should be a sensible direction for the future. It allows for more diversity and ultimately increased sustainable structures. A sparsely populated and for centuries rural district in Mecklenburg cannot be equated with a district in Southern Hesse, where, for decades, the German branches of international companies have been settling. The Ruhr region functions in a different way from the region of Basel. In addition, some developments are unplanned or develop differently

from what was forecasted. For example how fast the trend towards re-urbanization would assert itself was barely foreseeable 15 years ago.

AT THE RHINE

BpB: How can a common spatial context such as the Rhine lead to collective regional strategies?

TS: Certainly the Rhine is an important spatial framework that helps abutting neighbours towards a collective infrastructure and interests. This also has a dimension of economic history, if you consider that the Rhine has always been one of the most important transport routes in Europe. An exchange of chemical industry's workers for instance has always taken place between Basel, Ludwigshafen and Frankfurt. In particular, the Rhine is now a strong semantic concept that structures connections – think of ideas such as “Rhenish Capitalism“. In light of the multitude of “Rhine conferences” one would have to complete a cross-check with a view towards the planning reality. Do typical regions on the Rhine which are comparable in structure – for example, strongly agrarian regions or industrial areas – differ essentially from areas that lie elsewhere?

THE BILLION-EURO QUESTION

BpB: A final hypothetical question: Just in Germany, current calculations for the investment backlog have a sum of one billion Euro. If we assume that we could dispose of this sum: What would be an ideal investment agenda?

TS: A single person cannot design this agenda. It must be the result of a process, in the middle of which there is a debate about the differentiation of the challenges as well as a true and transparent needs test. It cannot work according to the “watering can principle” intended to create equal living conditions. However, still more decisive remains another question: From where is the billion intended to come? Thus far, political discussion avoids any honest confrontation. From whom should we take the money if we, at the same time, allow ourselves the luxury of debating tax reductions? The corporate tax burden has been halved around the millennium, and the actual tax burden lies even lower. Property taxes have been abandoned in 1997. Whoever proposes investment funded predominantly out of income tax or value-added tax should admit this publicly. With a backdrop of a chronically underfinanced nation one can only term frivolous the current constitution of the inheritance tax, for example – at least then when one takes seriously the civic idea that ones own achievement should tip the scale for social position. International

tax competition cannot be an excuse to legitimize irresponsible dealings with one's own distribution and social model. Before the billion Euro question can even be asked, one must therefore first discuss, “What and to whereto?”

Interview

by Helmut Thöle and Matthias Rottmann on July 1st 2013 in Essen Steele.