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### *Political Aspects*

#### **Changing of the Guard**

Now that the formation of the small coalition between the Social Democrats (SPD) and the Free Democrats (FDP) is assured, the Social Democrats supply once more, for the first time in forty years, a Chancellor, and the first real change of government in the history of the Federal Republic is about to take place. This event is to be welcomed without reserve as being highly desirable for the future development of our state, for it is the essence of a democracy that it is practised. It will not do that the SPD—one of the two supporting pillars of our community—is condemned to the role of permanent opposition or at most the role of junior partner. Even if one lumps the two parliamentary parties, the CDU and the CSU, together and regards them as the strongest single party, it is impossible to base on such a calculation a "claim for leadership", for no such claim can be derived from either the Basic Law or from the rules of the game as played by the old and well-established democracies. This is merely a question of political constellation.

As far as the Basic Law is concerned, there are no objections to be found in it to a government with a small majority, for the law places the Chancellor in a very strong position. There is first and foremost the clause of the „constructive vote of non-confidence“. This clause provides that the Chancellor can be voted out of office only if a majority of the Bundestag can agree on a new Chancellor. It is of course possible that the little coalition does not survive the legislative period, as was the case in the previous Parliament. But the danger that within the alliance of SPD and FDP extreme elements gain the upper hand would seem to be remote, for both partners depend too much on each other. And that an effective government with a small majority is possible even if it is faced by a strong opposition, was convincingly demonstrated by the first CDU/CSU Government under Dr Adenauer.

From the point of view of internal politics, much depends on whether Willy Brandt as Chancellor will succeed in "erecting the signs" during the first hundred days as was his declared aim before the elections. His plan was to dispose as quickly as possible of all legislation on which the coalition partners agree. Among such non-controversial measures are: the Law on the Constitution of Enterprises, essential parts of the Tax Reform, the Control of Economic Trends, the Legal Re-

form, the Skeleton Law governing Universities and Pensions for War Victims. Other problems such as the workers' share in the control of the management of the factories and the creation of personal assets present greater difficulties and their solution will at least take longer. Many internal problems have long been waiting to be solved. Of particular urgency is an energetic attempt to do something to arrest the growing alienation of young people, and especially students, from the state, for this affects our leaders of tomorrow. A policy of bludgeoning them into submission with truncheons achieves nothing.

In the field of foreign policy, the two coalition partners should in the long run experience little difficulty in working together. In this sphere, the FDP is rather less dogmatic than the SPD, whose leader, Willy Brandt, lays greater stress than does the FDP on continuity in the policies concerning the East, concerning Germany and concerning security. The Federal Government's scope of action in the field of foreign policy is restricted to narrow limits firstly by the fact that Federal Germany is an integral part of the Western Alliance and, secondly, by the attitude of the Eastern Bloc states. Both partners in the Government, while earnestly striving to find a *modus vivendi* with the GDR, are agreed that the two German states must not look upon each other as foreign states, and for this reason formal recognition is out of the question. Recognition of the GDR by other states will continue to be regarded as an unfriendly act, but there is to be in future greater flexibility in the Federal Government's reaction to such acts. It must be remembered, however, that Herr Schroeder, when he was Foreign Minister, already pursued an active Eastern policy and that the Kiesinger Government, as long as it was still able to act, did much to introduce greater flexibility into relations with the East. Most of its proposals failed because of Eastern mistrust. hg.

### *Economic Policy*

#### **Missing the Boat**

The polling stations were scarcely closed and the new coalition between the SPD and the FDP was just beginning to take shape, when the main issue had already been decided: the DM-rate was unpegged and revaluation had taken place—not *de jure* but *de facto*.

Whether the courageous rate of revaluation by which the new Government has meanwhile legal-

ised the tendencies showing in the open market, can prove effective, however, will primarily depend on what supporting economic measures the new Government will take following these events. It clearly emerges from the most recent statistics about cyclical trends that the outgoing Federal Government, after refraining from all economic action for several months, had already been overtaken by events. The excessive upswing which began to make itself felt in the spring of this year is continuing. The statistical data do not confirm the assumption, which was heard before the elections, that the boom had already passed its peak. Total demand will go on expanding more rapidly than the total of available supplies. In the investment goods sector, the backlog of orders is still increasing, and delivery dates are lengthening. And now the demand for consumer goods is also likely to grow considerably, following the sizeable wage increases already granted or still in the offing. On the other hand, there is very little scope for increasing supplies, for factories are running to capacity and there is no more spare labour to be had. In the near future, rising wages and rising prices will bring about the adjustment of the internal economy, necessary within a system of fixed exchange rates. A modest revaluation of 6 p.c. would have no longer sufficed to arrest the rising trend of prices of the last few months.

What other measures to influence the business cycle can be expected of the new Government? The Federal Bank's possibilities to restrict monetary supplies are already well-nigh exhausted. To screw up interest rates yet more tightly is inadvisable for balance-of-payments reasons; besides, still higher interest rates could reawaken memories of 1966 and arouse fears of another recession. On the other hand, such measures as have been announced by the fiscal authorities are more likely to stoke up the fire than to take the heat out of the economy. Income-tax concessions as well as increased expenditures by the authorities on personal and transfer account will undoubtedly increase still further the excess of demand over supplies. True, the steeply progressive scale of the German income tax system will exercise a damping effect as will the further increase of social insurance contributions, which is to become effective as from January 1970. On the other hand, the SPD has let it be known that there is probably no longer any question of damping down investment demand by suspending the degressive investment depreciation allowance—a measure which had originally been proposed by Professor Schiller earlier this summer. It is now obviously feared that such a step might seriously impede growth on the supply side.

The new Government will therefore also be unable to avoid a clash between the two objectives laid down in the Stability Law—a conflict

between a steady and reasonable growth rate, on the one hand, and a stable price level, on the other. During the election campaign, the SPD successfully made themselves the champions of a strategy of stability. To keep this election promise should prove very difficult. hw.

### *Social Policy*

## **More "Social Symmetry"**

The measures for which the new SPD/FDP coalition will be seeking parliamentary approval in the coming years may be outlined as follows: The main feature of the Social Democrats' Programme for the Pensions Insurance Fund is that it should in future be accessible to self-employed persons. It is further intended gradually to do away with the income limits beyond which it is no longer compulsory to participate in the insurance scheme so that it will ultimately cover the entire population. Sickness insurance, too, is to be made generally compulsory; in this area, upward adjustments of income limits up to which contributions are obligatory have already been expressly included in the Government's programme. It is further planned annually to revise public assistance payments to war victims, gearing them, as from January 1, 1970, to the general economic development. In order to achieve a fairer distribution of the DM 6,000 mn set aside in the budget for the equalisation of family burdens, children's allowances and tax exemption limits according to the taxation law are to be coordinated so as to form in future a uniform system.

In its efforts to promote the creation of personal wealth, the SPD has no intention to use compulsion; its policy is to achieve a higher degree of voluntary abstention from consumption by way of tax relief and other measures to stimulate the propensity to save (particularly through premiums). Partners to collective wage agreements are to be called upon to change their attitude towards wages and incomes and to attach greater importance in future to the aspect of creating personal wealth by allowing workers a share in the productive capital of their company.

The FDP's policy differs from that of the SPD not so much in its aims as in its methods. The talks on these issues, which the two government parties will still have to have, should not lay too great a strain on the coalition so that prospects of the programme receiving the necessary majorities in the House may be regarded as good.

The SPD has promised to press most energetically for co-management and to extend the model of the iron, coal and steel industries to all larger concerns. Its coalition partner, the FDP has put a stop to that, if only as far as equal representation of workers and management is concerned. On the

other hand, the Free Democrats would also like to see workers' rights inside their factories extended in accordance with the Law for the Constitution of Enterprises.

If one considers that expenditure for social purposes this year exceeds for the first time DM 100 bn, one begins to see emerge yet another problem — a problem that concerns the entire social programme; it is this: Social policy, affecting as it does, the lives of individuals, must be steady to a high degree. Economic, growth and structural policy, on the contrary, must have a certain elasticity. This element of elasticity becomes ever more difficult to preserve as total social expenditure tends to grow more and more out of proportion to the Gross National Product. Now that further extensions to the social programme are being planned, it would be advisable to make a thorough study of the social budget from the point of view of its effect on general economic policy. jc.

#### *Foreign Trade and Payments*

### **Greater Flexibility**

No matter to what level the D-Mark will finally be revalued, the time of the immense foreign trade surpluses appears to be drawing to a close. The correction of the parity of the DM by 8.5 p.c. and the upward surge of the internal price level should generally lead to a curtailment of exports and to an acceleration of imports. Even if the new Government succeeds in preventing by appropriate measures a new wages-prices spiral, the battle for export markets is bound to become much fiercer, particularly now that the devaluations by Great Britain and France have begun to become effective.

The Government could give its exporters some assistance by means of a flexible foreign policy. Chancellor Brandt has for long been reputed to be an advocate of an extended Common Market. The start of negotiations with Great Britain might well be the starting signal for similar negotiations with other countries. In this manner, it would be possible to bridge the gap between EEC and EFTA, and this would in turn provide exporters with fresh incentives. Similarly favourable effects — also in the long run only — can be expected of the announced intention to improve the climate in which trade with the states of the Eastern Bloc is carried on. Present indications are that the restrictions on transactions with the East will be progressively removed, and this should give a new fillip to trade in general, last but not least also to internal German exchanges with the German Democratic Republic. There have been definite signs of an intensification of this trade since the Leipzig Fair earlier this year.

In the sphere of monetary policy, too, the SPD/FDP Government is expected to be more flexible.

In this field, a closer link between the independent Central Bank and the Ministry for Economic Affairs is more likely than ever before. Should the Minister, Professor Schiller, succeed in appointing to the post of President of the German Federal Bank—a post that is shortly to be vacated—a man of his choice, both institutions will in future work as a team. This cooperation could not only simplify the cyclical and growth policies; it could also lend more vigour to the Government's endeavours to allow the DM-rate greater flexibility. The new Government, too, is unlikely to give up its demand for an international realignment of parities and is sure to support any move in the direction of a world-wide monetary reform.

As far as development policy is concerned, however, no far-reaching reforms need be expected. It is to be welcomed that the existence of this Ministry—which had numerous difficulties in getting off the ground—was at no time of the negotiations for the coalition a matter for debate. That Ministry is firmly established; what matters now is to consolidate what has been achieved. Organisation questions will in the first instance have to be given priority. For the effectiveness of the development policy will decisively depend on whether it is possible to unravel the tangle of overlapping responsibilities of the more than 200 German development organisations. The Minister, Herr Eppler, in creating a few weeks ago a Federal Institute for Development Aid has taken an important step towards centralising at least the technical aid side—a step which may prove decisive for the future course of events in this field. ke.

#### *Eastern Trade and Integration*

### **European Problems not Insoluble**

The new Federal Government has announced its intention to continue the previous policy towards the Eastern bloc. But it means to pursue it with greater vigour. As inter-state trade does not necessarily smooth the way to a political détente, but may well do so, the Minister for Economic Affairs Professor Schiller is expected to intensify economic cooperation with Federal Germany's eastern neighbours. The talks between Bonn and Moscow about deliveries of Russian natural gas and German steel pipes show that the scope left for eastern trade is by no means exhausted but offers many opportunities for extending it. France, Italy and other European states, which recognised this gap some years ago, will in future have to be content to find the Federal Republic among those contending for economic favours from the East.

The Federal Republic is still with exchange-marks 2,600 mn the GDR's third largest foreign trading partner. East Germany's need of industrial goods from the West is far from being satisfied. What the GDR has to offer in exchange in raw materials,

semi-manufactured and manufactured goods is the reason—apart from political aspects—why interzonal trade is at such a low level. But the Federal Ministry for Economic Affairs could well provide incentives for an expansion of trade between the two parts of Germany by offering more favourable credit terms and improving other facilities.

As for the future development of the EEC, the new Federal Government's programme is twofold: Firstly, consolidation of the Community of the Six, and secondly, admission of new members. The devaluation of the franc and the revaluation of the DM have invalidated the system of uniform farm prices. What irony that the common market for farm produce—frequently called the one shining example of integration during de Gaulle's reign—should have collapsed shortly after the General's resignation! The SPD/FDP coalition has let it be known that it intends to work towards a reorganisation of the agrarian market. In this connexion it is to be hoped that the Mansholt-Plan, which has somewhat fallen into oblivion, may serve as a basis of discussion. As a European monetary union is for the time being out of the question, the Federal Government will have to bring its influence to bear in favour of a better coordination of economic and financial policies, if revaluations and devaluations are not to become the order of the day.

Only after the EEC has been truly consolidated will it be possible to tackle the problem of the admittance of Great Britain, Ireland, Denmark and Norway. The annual Conference of the British Labour Party has shown that Great Britain does not entirely accept the political consequences of EEC membership. The attempts to establish an integrated Nordic Trading Area seem to indicate that Denmark and Norway are also preparing for lengthy negotiations about their entry into the Common Market. crm.

### *Long-range Perspectives*

## **No Revolutionary Changes**

It is a common experience that election promises and election programmes become relatively less important as soon as politicians come into power. It is therefore reasonable to assume that Professor Schiller's strategy for stability on which so much stress was laid during the election campaign will make way to a more realistic attitude. Professor Schiller is best qualified to know that index-stability has no intrinsic value. It is therefore not surprising that the Social Democrats have meanwhile let it be known that they intend in the longer run to lay again greater stress on economic growth. More and steadier growth can be achieved in the immediate future—what speaks in favour of such an assumption is the fact that

the SPD and FDP are agreed to apply strictly the Law for the Safeguarding of Stability and Growth and to exploit to the full the existing control mechanism. But if relatively high growth rates are to be achieved in the longer run, certain basic preconditions must be created. These are: an improvement of the material as well as the intangible infrastructure and an active structural policy.

When it comes to investment expenditure for research and development, the Federal Republic's record makes a very poor showing by international standards. Whereas other countries are carrying out a radical reform of their entire educational system, many subjects are still being taught and learnt in the Federal Republic in the same manner as fifty years ago. In as far as these problems can be solved at all by organisational or financial means, the new Government may be expected to tackle them in a positive manner. The intention is to expand the present Ministry for Research and to give it additional powers, enabling it to centralise the entire complex of schools and universities. Moreover, expenditure for scientific and research purposes is ideally to reach 3 p.c. of the GNP, thus following the example of the USA.

Among the urgent problems involved in improving the country's material infrastructure are those concerning urban rehabilitation and the dilemma which faces the Government's transport policy owing to traffic congestion. The long overdue urban rehabilitation is to be undertaken on the basis of the Urban Reconstruction Bill which the SPD tabled last year. The FDP will admittedly press for a watering down of the expropriation paragraph contained in the SPD draft. Regarding transport policies, on the other hand, no major changes are to be anticipated. In this field, SPD and FDP hold almost contrary views, which makes it likely that this problem will be shelved.

On structural policy, SPD and FDP are on the other hand agreed to continue, but with greater vigour, the previous policy of helping with the development of the economically backward regions. In view of the fact that these regions depend to a large extent on agriculture, development policy will at the same time raise the entire set of problems of national and Common Market farming policy. Already last year, Professor Schiller, outgoing and incoming Minister for Economic Affairs, made it known how in his view this problem would have to be solved. What needed doing was to provide investment aid for industrial undertakings and larger funds for regional aid programmes. There would have to be clearly formulated action programmes for certain regions and the creation of urban nuclei. It is the task of the coalition to set up an "integrated and harmonious" economic and agrarian policy. ogm.