

Hamburg Institute of International Economics (HWWA) (Ed.)

Article — Digitized Version

German prism

Intereconomics

Suggested Citation: Hamburg Institute of International Economics (HWWA) (Ed.) (1970) : German prism, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 05, Iss. 7, pp. 228-230, <https://doi.org/10.1007/BF02927967>

This Version is available at:

<https://hdl.handle.net/10419/138369>

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GERMAN PRISM

Price Increases

Lowest in West Germany

The Statistical Office of the European Communities is publishing a Consumer Price Index on the basis of 1966 = 100. In the Federal Republic of Germany this index showed an annual average of 106.0 points in 1969. Prices developed similarly in Luxemburg (107.3) and Italy (107.9). In the other EEC member states price rises were considerably higher: the Belgium Index of Consumer Prices was 110.6 and that in the Netherlands 115.3. France had reached an index level of 113.9 already within the period from January to September, 1969.

Hearing on Future Problems of Development Policy

The Federal Committee for Economic Cooperation arranged a hearing on future problems of development policy on April 27 and 28. At this hearing representatives of the "Working Group Developing Countries", the Federal Association of German Industry (BDI), the Central Association of German Chambers of Industry and Commerce (DIHT), the German Trade Unions Federation, the Institutes for Economic Research, the Catholic and Protestant Churches, the Association of Taxpayers, the "Action for the Third World", and a number of journalists were heard. The Committee for Economic Cooperation by questioning leading figures known to the public aimed at forming an opinion on development policy in the Second Development Decade and to hold its own position vis-à-vis the Federal Government.

The Second Development Decade 1971-1980 is gaining growing importance in international discussions. It is the target of these talks to work out a comprehensive concept for a solution of development problems arising in future decades.

The Federal Republic is expected to make a contribution corresponding to its economic importance.

Demag AG Optimistic about the Future

The Chairman of the Board of Managers of Demag AG, Duisburg, Herr Wolfgang Reuter, is extraordinarily optimistic about the future. His firm is expecting a turnover growth rate of 20 to 25 p.c. for 1970. The doubling of turnover within the next five years as announced by the Board of Managers a year ago will probably be reached earlier by Demag.

The Board of Managers is also satisfied with the annual balance for 1969. Investments of the concern have been raised to approx. DM 95 mn, the major part of which falls to the share of additional participations. Although Demag will invest again DM 90 mn in 1970, this time the emphasis is on fixed assets. International turnover in 1969 rose by 24 p.c. to DM 1.18 bn. Of this total 37 p.c. falls to the share of foundry construction and turnover of products, 27 p.c. to mining techniques, 11 p.c. to building-machinery and 25 p.c. to mechanical engineering with compression techniques, compressed air techniques and plastics processing machinery.

Tax Changes at a Constant Taxation Ratio Disputed

With indefatigable energy the Opposition supported the Federal Minister of Finance, Alex Möller, in his intention to raise taxes in consideration of the economic situation. But he has been opposed in the ranks of his own political party—the Social Democrats (SPD)—and its coalition partner, the Free Democrats (FDP). The latter party seems to be more interested in its old

liberal principles than in an adequate economic policy. When the personally wealthy Minister of Finance did not find a majority for his first proposal, he demanded—as a contribution to the topical redistribution of property—a heavier taxation of high incomes and a relief of the lower ones.

Again a compact opposition made itself felt: Its advocates talked the German economy into an artificial restlessness by emphasising the consequences of the planned tax increases. In order to ease the tension the Federal Minister of the Interior asserted that the taxation ratio would remain constant. But this promise is of little use, for the unrest of the economy is caused by individual tax increases, which do not run contrary to the promised constant tax ratio if there are tax reductions in other sectors. And this is exactly what Dr Möller intends to do. The differing incidence of taxation of individual groups is not taken into consideration at all by this promise. Certainly the opposition parties will maintain their obstruction against this proposal, but it remains uncertain whether the FDP will yet agree with the Möller-plan.

Collective Wage Agreements for Individual Chemical Firms

It was not so much the wage level that was disputed in the hard discussions within the chemical industry but the area of application of wage agreements. Hitherto uniform

wage agreements were concluded for a certain region between the competent employers' organisation and trade unions of an individual sector. Thus an agreement applied to all firms of this region. True, the effective wages frequently did not only differ from these agreements but also between enterprises. But it is just this gap between wages as agreed upon and those actually paid that has been always a thorn in the side of the trade unions — and it ought to be, for the attraction of the unions is impaired by it. The Chemical Industry Union sought a way out of this dilemma by demanding wage agreements applying to individual firms — which in contrast to other countries is a demand unheard of in Germany. The entrepreneurs struggled against allowing American conditions to spread. Once more the employers could obstruct such individual wage agreements, although only at the cost of far-reaching concessions. Thus the differences between wages agreed on in collective bargaining and those effectively paid will be reduced by an anticipated rise of standard wages. Besides, a wage increase by an average of 11 p.c. was agreed

on. Wage agreements applying to individual firms would fit quite well into the Federal Republic's economy, for there is the hope that the publication of wage differences within an industrial branch might promote the mobility of labour — and that is what is urgently needed in view of economic growth in the Federal Republic.

BMW-Turnover Increases but Lower Profits Anticipated

In 1969 a total of 144,700 BMW-motor vehicles left the assembly lines — i.e. 33 p.c. more than in 1968. Sold were 141, 359 cars, i.e. almost 27 p.c. more than a year ago. At the

same time export turnovers increased visibly by 41 p.c. to more than DM 595 mn. Total turnovers rose by 40 p.c. to about DM 1.45 bn. Turnover target for 1970 is approx. DM 1.7 bn. This year DM 200 mn are to be invested. Expected profits are supposed to be smaller due to the uncertain cost increases.

The Board of Managers of BMW denied officially the always recurring rumors of a possible selling out to Daimler-Benz or Volkswagen. Nevertheless insiders pretend to know that a merger of the three big motor vehicle producers in Germany will take place in 1972.

In Spite of Full Employment High Growth Rates

In the Federal Republic of Germany the target of full employment has been reached already for more than ten years. With that economic growth has touched its natural limits.

Nevertheless certain branches quite frequently show high growth rates. Thus e.g. a new record has been reached by the German automotive industry for April 1970. The production of passenger cars surpassed the level of the previous year's corresponding month by 23 p.c. and the output of trucks rose by 26.5 p.c. even. The production of 378,182 motor vehicles and tractors in April is a new monthly record. The daily output of 17,190 vehicles is a new record, too. Overtime work and extra shifts have contributed considerably to this development. Revenues from the wages tax rose by 29 p.c. in April and this goes to show that vehicle construction is no special case. Apart from wage increases agreed on between the employers and trade unions, this trend reflects the workers' preparedness to work overtime. All this is showing that there are no rigid limits to production in a time of full employment and that output is flexible not only in a recession.

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In the State Budget for the financial year 1969/70 the development budget represents Rp 123.4 bn. This new State Budget has one outstanding feature which it was quite impossible to imagine a few years ago: whereas Sukarno's State Budget ended notoriously with a deficit, the "New Order" succeeded in planning a budget surplus on the routine account, i.e. a part of the domestic routine revenues, or more precisely a surplus on the routine account totalling Rp 24 bn—domestic routine revenues totalling Rp 228 bn minus routine expenditures amounting to Rp 204 bn—will be used to finance the development budget representing thus the first step on the road to a balanced State Budget. In this way the routine budget is inter-linked with the success or failure of the development budget for the same financial year.

In 1967 domestic revenues were insufficient to meet routine expenditure and thus a part of foreign credits had to be used to balance the difference. In 1968 the policy aiming at a balanced State Budget enabled the Government to use all foreign financial aid exclusively for development at a time when routine expenditures were met by domestic revenues. This was of course strengthening Indonesia's position at the IGGI meetings.

This way Indonesia has just begun to stand on its own feet and there is a fully justified hope that in future this country will be eventually able to implement all development on the basis of its own strength. It is expected that government savings on the routine account could reach Rp 226 bn within five years what appears quite feasible supposing the economic activities will continue to increase and the policy of austerity and efficiency in all sectors of State expenditures will be continued. The limitation of the State manufacturing sector, the closing of unprofitable and subsidised State enterprises, the simplification of their management and reintroduction of the principles of efficiency seem to be a good omen for the future.

Government Revenue Estimates in 1969/70

Category of Revenue	Amount in Rp billion
A. Direct taxes	91.2
B. Indirect taxes	134.3
C. Non-tax revenues	2.5
I. Domestic routine revenues (A+B+C)	228.0
II. Development revenues — revenues from foreign sources	
1. Foreign credits	63.184
2. Project aid	36.234
Development revenues total	99.418
Total revenues (I+II)	327.418

Source: Antara 8. 2. 1969. Table simplified and amended by the author.

Present Tax System Unsatisfying

In connection with Indonesia's search for further domestic capital resources it is worthwhile to make a few remarks about the present tax system: In the State Budget 1969/70 the whole direct tax yield is evaluated at approx. Rp 91.2 bn and the indirect tax yield at some Rp 134.3 bn, with an improvement in direct tax yields as compared with the past. It is expected that probably Indonesia will also make some progress in the sphere of indirect taxes as the increasing economic activities, production and trade will contribute to higher tax yields. The yields of the non-tax revenues, consisting of "administrative revenues" and revenues resulting from State participations are roughly estimated to reach some Rp 2.5 bn during 1969/70.

Generally it should be the role of each government to apply such a reasonable fiscal policy as to enable the mobilisation of sufficient funds for the State without burdening excessively the tax payers. In this sphere there is still much to be done in Indonesia as the present tax system is far from being satisfactory. In the field of taxation it is necessary above all to improve the tax administration and to proceed to the intensification and extension of tax collection. In the long run the respective tax groups and the structure of taxation must be changed.

For the time being and for the near future government savings still play an important part in financing development programmes and therefore their level should and can be considerably improved. However, it is expected that perspectively the greater part of investments will be covered by the private sector and financed through private savings.

Inflation under Control

After summing up facts and figures on the latest development of Indonesian economy we come to the conclusion that although there are still serious problems to be solved in the capital sphere—debt service, considerable capital requirements abroad and at home to finance development—one of the main economic problems, i.e. inflation seems to be already under control.

In Indonesia as well as abroad satisfaction has been voiced regarding latest developments. Even the World Bank is feeling optimistic and has stressed that the sound and realistic policy pursued by the present Government in promoting foreign investments and trade justifies hopes that the fifth-largest nation will regain an important place in international economy.