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# COMMENTS

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## *FRG: Political Situation*

### **Marked by a Calm**

The days of euphoria, that only a year ago dominated the Brandt Government, are gone. What matters now is steadfastness and tenacity in enforcing its plans. With regard to foreign policy the Government is condemned to wait due to the four-power negotiations on Berlin. In any case, the German "Ostpolitik" has made a return to the rigid positions of the past impossible. In its relations with the West, which are the irrevocable basis of its foreign policy, the Government succeeded in playing a more confident role corresponding to the importance of the FRG.

With regard to domestic policy the Government registers relatively few actual achievements. True, it proved its instinct for innovations, has planned ambitious reforms and is working on a revision of antiquated laws. But difficulties are accumulating nevertheless: The wage and price spiral has by no means come to a stop yet, the threat of stagflation has not been banned and the planned reforms will cost enormous sums which will be difficult to raise.

Another problem is the relation of the political parties with their youth organisations. If for decades the political apathy of the young was deplored, wide quarters of the establishment have now learned to dread them. But who, after all, should dispute the relevance of old modes of thought, give new impulses and occasionally protest, if not the young? These things are youths' birthrights, and it will do the parties no harm if they are forced to trim themselves to stream-line shape, to argue with the young and to carry their point if the established ideas and plans are the better ones. Only this way will the conflict of generations be overcome and the necessary evolution be made possible. hg.

## *Business Policy*

### **Stagflation not Improbable**

The present cyclical development in the Federal Republic creates an economic policy dilemma for the Brandt Government. After the hitherto strongest and longest boom of the post-war period, the economic situation is marked by an utterly disagreeable connection of a cyclical decline with simultaneous cost and price increases. The Federal Government is thus facing the al-

most insoluble problem of recognising the right moment for the reduction of the existing contractive measures.

While before the beginning of the recession at the end of 1966 all indicators pointed at an imminent downswing, today the future economic development and with that the right decision could only be perceived by the owner of the "philosopher's stone". True, declining profit anticipations led to a pronounced decrease in investment activities. On the other hand, government expenditure, foreign demand and, as a result of still growing mass incomes, private consumer demand are continuing to increase. Professor Schiller is therefore well advised to bide his time.

For, if a gradual abolition of contractive measures is initiated too early, the new upswing will start when price increase rates are still too high. If, however, these measures are taken too late, the target of a steady economic growth will be strongly jeopardised and the danger of an economic slump great. In both instances promises made in the election campaign and in the Government declaration will be violated and the Government would risk its reelection in autumn, 1973. kw.

## *Foreign Trade*

### **Active Balance still Improved**

With a foreign trade turnover of DM 235 bn (1969: DM 211.5 bn) the Federal Republic maintained again in 1970—in exports as well as in imports—its second place in world trade behind the US and ahead of Britain. The importance of foreign trade in its relation to GNP increased simultaneously. International interdependence advanced particularly among the EEC-countries, by far the most important trade partners headed by France. The second place was occupied by the remaining Western industrialised states. Their share remained almost constant while trade with the developing countries and the East-bloc lost some of its significance.

The effect of a noticeably reduced surplus position of German foreign trade, as aimed at by the DM-revaluation, has not been obtained. The active balance of DM 15.7 mn even surpassed that of the preceding year (15.6) and thus surmounts by DM 4 bn the target set by Minister Schiller at the beginning of the year. Nevertheless it would not be justified to call the revaluation a complete failure: after all, the growth rate of exports of 14 p.c. in the previous year

declined to 10 p.c. in 1970. One thing, however, had not been anticipated—imports did not play their part. Their growth rate declined (!) from 21 p.c. (1969) to 12 p.c. Taken by and large, the revaluation was counterbalanced by the continuing boom in most Western industrial countries, a weakening boom at home and rising prices in all Western states.

The weakening business trend in Western Europe justifies anticipations that German exports to these countries will increase less strongly in 1971 than hitherto. Due to the Federal Republic's business situation the same applies to imports. What matters now to German economic policy, in the interest of increasing foreign trade, is an expansion of trade with developing countries and the East-bloc. In this connection a general preference system in favour of LDCs, which (it is hoped) will be passed soon by UNCTAD, and the German treaties with the East-bloc might have positive effects. divo.

#### *Development Policy*

### **Concept Referring to Countries**

For the first time the Federal Government approved a concept of the development policy compulsory for all departments. According to the Federal Minister for Economic Cooperation, Dr Eppler, this concept permits the optimum employment of funds provided for the Third World. German development policy is to be oriented toward the developing countries' objectives. Any intention of forcing political, social or economic concepts on LDCs is strictly negated. In future a long-term, integrated and internationally co-ordinated programme for a given country is to be the point of departure for aid efforts. With that, individual projects are to be better adjusted to the developing country's planning, and the selection of priorities and locations will be facilitated. This means a quite far-reaching dismissal of the former project-oriented policy.

Focal points of development policy are to be the struggle against unemployment, the extension of the educational system, structural improvements of agriculture and expansion and diversification of trade and industry. It is of particular interest that the Federal Government is now also prepared to support measures of family planning on a bilateral level. So far it confined itself to making only a minor contribution (DM 5.5 mn) to the promotion of UN-programmes.

The Federal Government made up for an important omission in past years by submitting the new development policy concept. But the demands the Government makes on itself are great. This

is shown last but not least by its readiness to increase—almost to the point of doubling them—government funds made available to development aid to 0.7 p.c. of GNP. To what extent this will suffice and, above all, whether this intention can be realised in view of the major efforts to carry through internal reforms is rather doubtful. The required coordination, fragmentary as it is on the national level, is even more difficult to obtain internationally. The prerequisite, a sufficient development planning in the Third World, is given only in a few states. fa.

#### *Future Outlook*

### **Reform Policies by Instalments**

In autumn 1969 Willy Brandt took office with the intention to become a chancellor of "internal reforms". His Government announced that 455 reform projects would be accomplished or embarked upon during this legislative period. Today, however, in the second year of the Coalition Government, the impression is growing stronger that this Government has undertaken too much and that the proclaimed reform policy cannot be seen through.

On the whole the Government has to blame itself for this rather unpleasant development. The mistakes it made are to be found in the extensive promises contained in the Government declaration that could not but raise false hopes and in the miscalculation of the required resources. When the "mammoth" programme was presented, the Government pretended that the financing of the reform projects was no puzzling problem. Meanwhile enormous financing deficits occurred, caused by additional expenditure due to legal obligations and price increases in the past, on the one hand, and to declining tax receipts caused by the business trend, on the other hand. For the years 1972 to 1974 alone DM 22.5 bn are to be covered by public debt financing, but for DM 17 bn there is no coverage so far.

In the long run the Government has only two ways out of the dilemma—cancellation of reform projects and/or an increase of the taxation ratio. One step on the first road has already been made; expenditure are to be put off to a later date and long-term reform projects postponed. But as long as no concept with adequate financial resources is presented in detail, it still remains to be seen whether things will be left at that. When it comes to the long overdue drawing-up of such a concept the Government should have the courage to admit that reforms are impossible in a trice and that they require solid financing, i.e. tax increases. ogm.