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Financial Crisis in the Federal Republic?

The budget proposal of the Federal Government for 1972 has not yet been passed by Parliament. That with the majority in the Bundestag being what it is the budget debate could easily have put the Government in jeopardy was evidently not the only reason for the delay. Quite a number of factors have made an impact on the original budget estimates so that corrections became necessary, and the changes in the economic situation also required attention. The adjustment process had thus to be started all over again, inside the Government and in Parliament.

While the 1971 budget balanced at DM 99 bn, the original budget proposal for 1972 provided for expenditure of DM 106.6 bn. Supplementary demands by individual ministries on the grounds of higher personnel costs and increasing allocations to the Länder and local authorities soon lifted the budget total to DM 109.2 bn, even though important items which would raise it further to DM 115 bn had been left out. With a budget total of 109.2 bn a shortfall of DM 7.3 bn would have had to be covered by borrowing instead of the budgeted DM 4.7 bn. Taking spending outside the budget and other public sector indebtedness into account, it looked as if the state would have to borrow a grand total of DM 30 bn. The fate of the 1972 budget shows once more that a draft budget is the more likely to be upset by specific additional demands, the longer its final discussion is postponed. Decisive for the budget appraisal however were the overall price increases and more particularly those of relevance to the public sector.

The rising expenditure estimates and the signs of mounting public indebtedness must indeed be viewed against the background of an economic trend which was not yet clearly discernible when the first budget estimates were drawn up. The phase in the business cycle which is marked by a recession in capacity utilisation did not continue in the Federal Republic during the early months of 1972. A revival of demand signalled the start of a new economic upswing. That prices went on rising though apparently more slowly is a normal concomitant. But during the preceding phase the

rate of price inflation had not remarkably subsided even though economic activity had slowed down. For this reason the aims of the stabilisation policy were not adequately achieved. This being the case, it is tempting to use the Federal budget once more as an instrument for an economic policy which is orientated towards stabilisation. Expanding expenditure and additional borrowing at the same time does not seem to fit into the picture of a policy which conforms with stabilisation requirements. For lack of information about the response of the rest of the public sector and of the private sector one may however too easily pass a negative judgment.

In the final analysis the decisions to be taken now thus pose again the question whether spending cuts of about DM 2.5 bn are an adequate instrument from the point of view of economic policy. The — by no means certain — result of such a calculation would have to be balanced against the effects of deferment of just those state expenditures which are required in the interests of the general development of society. Experience suggests that it takes quite a long time to correct any deviation from trends devised for the long-term public investments supply. To avoid any further delay in creating an efficient infrastructure there is really only one alternative — higher taxes which would have to affect the private consumer directly. They would demonstrate more clearly than has been appreciated in Germany in the past that increased spending by the state depends on slower expansion of the private sector. The earlier this connection is seen to exist, the sooner will the Government regain its freedom of action. This is not an unimportant consideration when election time draws near.

It would really be a surprise if the problem of higher taxes would not be an election hit. But one could call it a sensation, when after the election — whoever may win — an increase in taxation would not become necessary. Another government may have other priorities, but the improvement of education, public traffic and health service will nevertheless remain its duty — and this has to be financed!

Eberhard Thiel