

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

Article — Digitized Version

The economic situation in Germany

Intereconomics

Suggested Citation: Hamburg Institute of International Economics (HWWA) (Ed.) (1991) : The economic situation in Germany, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 26, Iss. 3, pp. 145-148,
<https://doi.org/10.1007/BF02926125>

This Version is available at:

<https://hdl.handle.net/10419/140300>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

The Economic Situation in Germany

*In its latest joint report on the economic situation, the Association of German Economic Research Institutes reaches the following conclusions, presented here in abridged form.**

The gap between the economic development in the west and that in the east of Germany widened in the winter half of 1990/91. In the old Federal Lands, the expansion of economic activity continued at a fast pace. The increase in overall production again well exceeded that of physical capacity. The number of employed rose more rapidly and despite the heavy inflow of commuters from the new Lands, unemployment continued to decline noticeably. The economy in east Germany, however, continued on its downward path. The collapse of the centrally planned system and the competition shock attending the introduction of the D-mark had compelled most firms to curb production drastically and some were forced to close down. Added to this is the conversion of trade with the former CMEA states to convertible currency as of 1 January 1991, which deprived the east German firms of most of their major export markets. Industrial production, which, following a sudden decline after the middle of 1990, had stabilized at around half of its former level during the further course of the year, is likely to have again diminished tangibly. The number of unemployed and short-time workers rose more slowly in the winter half-year, but this does not adequately reflect the adjustment requirements of firms to lower production and the release of manpower required by rationalization, because to a large extent credits guaranteed by the Treuhandanstalt are being used for the maintenance of employment.

The actual causes of the adjustment crisis in east Germany are often misunderstood. The transition to a market economy, the liberalization of the markets and the revaluation shock when the D-mark was introduced all at once revealed the defects of the previous economic system and overtaxed the adaptability of the firms.

Moreover, the latter were suddenly faced with wage demands geared to west German rates and not to productivity levels in the east German economy. Because consumers in the new Lands preferred western goods, east Germany lost large segments of its domestic market, practically overnight. Finally, there were severe setbacks in trade with eastern Europe at the beginning of the current year. The scope of measures to promote public infrastructure and private investment in the new Lands was again enlarged in the spring. Owing to massive government assistance, east Germany has become a kind of "oasis" for investments, although due to the multiplicity of schemes it presents a confusing picture and the impacts these measures will have on the allocation of resources are ultimately almost impossible to assess. In all, nearly DM 100 billion in government payments will flow from west to east Germany in the course of the current year, almost half east Germany's national product. A large percentage of the public funds is presently channelled into consumption, in particular via measures to relieve social hardship. The divergence between overall demand and production is thus at present largely being funded by the state.

At the present stage, it is impossible to give a clear answer to the question of when the economic low in east Germany has been reached and how vigorous the recovery will be. In our opinion a slight recovery is likely as early as the latter half of this year. This assessment is based on business surveys, the privatization already effected and anticipated development in construction. It is virtually impossible to estimate how many firms still under the supervision of the Treuhandanstalt will regain a foothold in the market. On an annual average, however, overall production will still be one fifth below that of the previous year. Employment will continue to decline in the current year. The new firms in particular will create new jobs but this will by no means offset the loss of jobs in the old businesses and in the government sector. Thus, the situation on the labour market will remain dramatic. When

* Participating institutes: Deutsches Institut für Wirtschaftsforschung, Berlin; HWWA-Institut für Wirtschaftsforschung-Hamburg; Ifo-Institut für Wirtschaftsforschung, Munich; Institut für Weltwirtschaft an der Universität Kiel; Rheinisch-Westfälisches Institut für Wirtschaftsforschung, Essen.

judging the situation, it should not, however, be forgotten that in the old socialist economic system there was vast concealed unemployment, which has now surfaced.

In the course of the current year and into the next, the economic trend in west Germany will be largely determined by the same factors that played a decisive role in the latter half of last year. Demand in east Germany, which to a large extent is being financed by increased government transfer payments, continues to generate expansionary impulses. On the other hand, high interest rates, the sizable rises in taxes and other fiscal charges and, for the time being still, developments in foreign trade are working in the opposite direction. On balance, the overall expansion will slow down. As always, this forecast is based on a number of assumptions: the economies of the trading partners do not weaken further and start to recover in the latter part of the year. The oil price keeps to some 18 dollars a barrel. The level of dollar prices for industrial raw materials on the world market declines only a little further and rises somewhat in the second half-year. Boosted by higher transfer payments, the high demand from east Germany continues to grow, though not as rapidly as in the period after the introduction of economic and monetary union. Further wage agreements in this year's bargaining rounds amount to 6 - 7%. Monetary policy keeps trying to gear itself to the development of the production potential; no action is taken to place a brake on money supply. No significant new measures are taken in fiscal policy. Interest rates on the capital markets and the real external value of the D-mark do not change to any significant degree.

External economic relations will, for the time being, continue to have a dampening influence on the economic trend in west Germany. Export conditions will alter little in the further course of this year. The business outlook worldwide is somewhat brighter after the end of the Gulf

War and the drop in oil prices. The reconstruction of the war-devastated Gulf region may be expected to give a certain boost to German exports. In the particularly important European importing countries, though, the cyclical upturn will be very moderate at first. All in all, German exports will probably continue to stagnate for the time being with a gradual recovery at the end of the year at the earliest, which will then accelerate with a more vigorous upswing in the industrialized countries next year. Demand in west Germany for foreign products will probably continue to increase substantially. The slowing down of the economic expansion will have a dampening effect, but demand from the new Lands will continue to lend momentum to imports, especially as capacity utilization in west Germany will remain high.

Unlike the deliveries of goods abroad, those to east Germany – in west German national accounting they are recorded as exports – are expanding powerfully on last year. Direct purchases by east Germans in west Germany also show a clear upward trend. The composition of goods delivered to east Germany is quite different from that of exports proper. Owing to the backlog in east Germany, consumer goods have so far been predominant, while capital goods take up a much larger share in exports abroad. For this reason, business with east Germany does not help many firms offset the losses due to slack foreign trade. The growing investment activity in east Germany will, however, gradually lead to a shift in weights. In the short term, goods of western origin will dominate in investment activities in the former GDR, for lack of local products of an equal standard.

Due to slack foreign demand, high interest rates and incipient pressure on the high profits earned so far, investment conditions are not as conducive as in recent years. Nevertheless the investment boom can be expected to merely flatten out and investment momentum

PUBLICATIONS OF THE HWWA-INSTITUT FÜR WIRTSCHAFTSFORSCHUNG-HAMBURG

KONJUNKTUR VON MORGEN

Annual subscription rate
DM 120,-
ISSN 0023-3439

The short report on domestic and world business trends and raw material markets published every fortnight by HWWA-Institut für Wirtschaftsforschung-Hamburg

VERLAG WELTARCHIV GMBH – HAMBURG

ECONOMIC TRENDS

to remain powerful in the present year at least. Several factors support this view: even though production is expected to expand more slowly than to date, capacity utilization will remain exceptionally high. Investments to extend capacity will thus continue to be urgent. Overall demand has been rising rapidly up to now; foreign demand is on the decline but this is offset by strong demand impulses from the new Lands. Profit prospects are still good, even though rising wage costs severely curb the increase in business earnings. Investments in business construction will rise more slowly than last year. The slowdown in residential building will be even more pronounced as in this sector high interest rates have a more marked effect. The decline in public building activity will go on. In response to the heavy financial burdens of German unification, central and Land authorities will drastically cut their building investments in west Germany.

The consumer goods boom will abate as the year proceeds. The wage agreements are markedly higher than

last year, but the total number of man-hours worked will expand less rapidly than so far and net income will be curtailed by the effects of tax progression, higher social security contributions and the solidarity surtax. In all, disposable income of private households can be expected to go up by 5½% as compared with 8% in the previous year. Real income will rise far less as inflation will accelerate significantly. Private households will probably respond to the added burdens of taxation and social security contributions by saving less, particularly as the solidarity surtax on income tax is for a limited period only. Consumer prices will rise faster in the coming months, spurred by the higher wage increases and the rise in indirect taxes, which in many cases will be passed on to the consumer as income and demand will go on rising tangibly.

The upswing will continue in the further course of this year, though noticeably slower. The annual rate of growth of overall production, which has been a good 4% in the last two years, will probably drop below 2%; on an annual

Key Data of the Forecast for West Germany

	1989	1990	1991 ¹	1989	1990	1991 ¹
	Absolute figures			% change on previous year		
Real gross national product ² (DM bn.)	2 046.8	2 138.7	2 193.5	3.8	4.5	2.5
Domestic demand, in real terms ² (DM bn.)	1 983.7	2 084.5	2 145.5	2.7	5.1	3
Aggregate demand in real terms ^{2,3} (DM bn.)	2 749.7	2 924.7	3 063	4.9	6.4	4.5
Gainfully Employed ⁴ (1,000 persons)	24 651	25 445	26 170	1.6	3.2	3
Unemployed (1,000 persons)	2 038	1 883	1 680	-9.1	-7.6	-10.8
Rate of unemployment ⁵ (%)	7.8	7.0	6.1	.	.	.
Consumer prices ⁶	104.6	107.2	110.8	3.0	2.5	3.5

¹ Forecast by the participating institutes in rounded figures. ² At 1985 prices. ³ Domestic demand and exports. ⁴ Domestic gainfully employed.

⁵ Related to labour force (employed and unemployed). ⁶ Price index for private consumption.

Key Data of the Forecast for the Federal Republic of Germany (as a whole)

	West Germany		East Germany		Federal Republic of Germany	
	1990	1991 ¹	1990	1991 ¹	1990	1991 ¹
Employed wage and salary earners ² (1,000 persons)	25 445	26 170	8 605	6 580	34 050	32 750
Unemployed (1,000 persons)	1 883	1 680	240	1 200	2 123	2 880
Short-time workers (1,000 persons)	55	100	775	1 800	830	1 900
Net. gov. financial investment ³ (DM bn.)	-51	-79	-31	-34	-82	-114
Balance on current account ⁴ (DM bn.)	72	-5

¹ Forecast by the participating institutes; forecast figures for east Germany on the basis of data from the Federal Statistical Office for the second half of 1990 and an empirically grounded model calculation by the Deutsches Institut für Wirtschaftsforschung. Rounded figures. ² Domestic employed. ³ As defined in the national accounts. ⁴ As defined in the balance of payments statistics.

average, gross domestic product will still top last year's figure by nearly 3%, due to the large overhang from the beginning of the year. The utilization of capacity will go down slightly for the first time in years during the course of this year. The very forceful demand for labour hitherto will slacken as the year proceeds but not to the same extent as production growth. This assessment is based on experience with the late phases of upswings in which the expansion typically shifts to the services sector, leading to a higher employment intensity of production. Also, in recent years, there has consistently been a shortage of suitable manpower, so businesses are likely to fill vacancies even in periods of economic slowdown. Both will lead to a slower rise in productivity. On the other hand, the labour force will expand significantly due to the large number of immigrants from eastern European countries and migrants and commuters from east Germany. Based on these assumptions, the number of unemployed is likely to stop declining soon and it will probably even go up again in the second half of the year.

The economy in Germany remains divided. In west Germany, the pace of the economic expansion will slacken markedly during 1991, especially due to the flagging momentum of private consumption. Investment growth, in contrast, will remain robust, even though it will not retain the dynamic of last year. Exports ought to pick up at the end of the year at the earliest with the gradual recovery of foreign economies. In east Germany, overall production will continue to decline for the time being. The large volume of funds that have been made available for private and public investments, however, will gradually make themselves felt on production. The uptrend in building will already be discernible in the first half of the year and overall production ought then to rise slowly in the latter half. Owing to the low level at the beginning of the year, though, gross domestic product will, on an annual average for 1991, be a quarter lower than in the preceding year. Next year,

production in east Germany will expand tangibly as the government programmes take greater effect, manufacture in new plant starts on a substantial scale and many privatized firms have been reorganized. The recovery will, however, start from a very low level of overall production. East Germany will thus need a powerful growth over many years to attain an economic performance comparable to that of west Germany. Ultimately, this growth process must be self-sustained and independent of government assistance, but some important conditions are still lacking. Unemployment will continue to worsen well into 1992 as there are large rationalization requirements, short-time employment will in many cases end in the termination of the employment contract and new businesses will only be able to offer comparatively few jobs at first. Gradually, though, the service sector will expand both vertically and horizontally and absorb an increasing number of workers.

The recovery in east Germany will generate new impulses for west Germany's economy. The main focus of demand will shift from consumer goods and services to capital goods. The anticipated upswing in the world economy will also boost exports again substantially and the inhibiting effects of monetary policy and this year's tax increases on internal forces will subside. In all, the economy in west Germany ought to be on a clear upward path again in the coming year. In the course of the increased absorption of resources by the new Lands after unification, the German balance on current account has undergone a drastic reversal. After a surplus of over DM 70 billion last year, the all-German current account will record a slight deficit this year and next. Until now, increased resources have been flowing into the new Lands largely to meet consumer needs. Resources must now be directed more towards building up real capital so as to allay the fears that the reversal in the balance on current account under the present conditions may have aroused.

HWWA Index of World Market Prices of Raw Materials¹
(1975= 100)

Raw Materials and Groups of Materials	1990		1991					
	AA ²	April	Jan.	Feb.	March	April	10.5	24.5.
Total index	185.7	155.4	182.3	157.7	155.8	157.9	159.3	158.7
Total, excl. energy raw materials	150.8	151.7	146.7	146.1	142.4	138.8	135.5	135.0
Food, tropical beverages	94.7	100.5	89.0	88.5	89.8	89.1	85.9	86.7
Industrial raw materials	193.6	190.7	190.7	189.9	182.4	176.6	173.3	171.8
Agricultural raw materials	210.8	209.2	212.6	209.8	198.9	187.7	183.5	187.4
Non-ferrous metals	201.9	204.7	183.8	184.1	183.2	184.2	181.0	168.6
Energy raw materials	206.0	157.6	203.1	164.5	163.6	169.1	173.2	172.5

¹ On dollar basis. ² Annual Average.