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FRAME ECONOMIC

FRG BUDGET FOR 1989

SUMMARY

1. DRAFT BUDGET FOR 1989 APPROVED BY CABINET ON 7 JULY. OVERALL SPENDING WILL REACH DM 288.15 BILLION, A RISE OF 4.6 PER CENT, WITH DEFENCE ALONE INCREASING BY 3.8 PER CENT. BUT THIS IS UNLIKELY TO BE ENOUGH TO SATISFY THE REQUIREMENTS OF BUNDESWEHR PLAN 2000 AND THE DEFENCE MINISTRY WILL BE LOOKING FOR FURTHER ADJUSTMENT DURING PARLIAMENTARY EXAMINATION. A POLITICAL ROW IN THE MAKING. EXPENDITURE ON INDUSTRIAL AND AGRICULTURAL SUBSIDIES WILL ALSO INCREASE TO DM 16.8 BILLION.

2. UNHAPPINESS CONTINUES OVER CONSUMER TAX INCREASES DESIGNED TO RAISE AN ADDITIONAL DM 8.08 BILLION AND TO BRING UNDER CONTROL THE BURGEONING, AND ARGUABLY UNCONSTITUTIONAL, FEDERAL BUDGET DEFICIT, OFFICIALLY ESTIMATED AT DM 39.19 BILLION THIS YEAR AND DM 31.97 BILLION IN 1989. CRITICISM OF THE GOVERNMENT IN GENERAL AND THE FEDERAL FINANCE MINISTER IN PARTICULAR.

DETAIL

3. THE DRAFT FEDERAL BUDGET FOR 1989 WAS APPROVED BY CABINET ON 7 JULY TOGETHER WITH THE NEW FIVE YEAR FINANCIAL PLAN COVERING THE PERIOD UP TO 1992. THE DRAFT BUDGET ALLOWS FEDERAL GOVERNMENT SPENDING TO INCREASE TO DM 288.15 BILLION, A RISE OF 4.6 PER CENT COMPARED TO PLANNED SPENDING THIS YEAR. SPENDING IN FUTURE YEARS IS PLANNED TO INCREASE MORE SLOWLY, BY 2 PER CENT IN 1990 AND BY 2.5 PER CENT IN 1991 AND 1992. THE HIGHEST SPENDING DEPARTMENTS, LABOUR AND SOCIAL AFFAIRS AND DEFENCE, RECEIVE INCREASES OF 8.3 PER CENT (TO DM 66.89 BILLION) AND 3.8 PER CENT (TO DM 53.3 BILLION) RESPECTIVELY. THE MINISTRIES OF ECONOMICS, WHICH HANDLES INDUSTRIAL SUBSIDIES, AND AGRICULTURE HAVE BEEN GIVEN FUNDING INCREASES OF 19.9 PER CENT AND 11.6 PER CENT RESPECTIVELY. ACCORDING TO THE FEDERAL FINANCE MINISTRY, THIS IS TO COPE WITH INCREASED SUBSIDIES MAINLY TO

AGRICULTURE, THE COAL INDUSTRY AND AIRBUS WHICH WILL TOTAL DM 16.8 BILLION.

4. THE DRAFT IS CONTROVERSIAL IN A NUMBER OF RESPECTS. ON DEFENCE SPENDING, THE PROPOSED INCREASE IS NOMINALLY DM 1.9 BILLION ABOVE PLANNED SPENDING THIS YEAR. BUT AFTER DISCOUNTING FOR ADDITIONAL WAGES AND SALARIES, THE INCREASE IS DM 1.2 BILLION OR 2.9 PER CENT. PUBLICLY THE DEFENCE MINISTER HAS CHARACTERISED THE INCREASE AS A POSITIVE DEVELOPMENT AWAY FROM THE RECENT TREND TOWARDS VIRTUALLY ZERO GROWTH IN REAL TERMS, ALLOWING A MODERATE DEGREE OF CONSOLIDATION THOUGH SOME EQUIPMENT PURCHASES WILL HAVE TO SLIP. NEVERTHELESS, THE INCREASE PROBABLY FALLS CONSIDERABLY SHORT OF THAT WHICH AT SENIOR LEVELS OF THE DEFENCE MINISTRY IS CONSIDERED NECESSARY FOR FULL IMPLEMENTATION OF BUDESWEHR PLAN 2000. THEY WILL BE HOPING FOR FURTHER ADJUSTMENT AS THE DRAFT MOVES THROUGH PARLIAMENT. THE MEMBERS OF THE JUNIOR COALITION PARTY, THE LIBERAL FDP, HAVE ALREADY BEGUN TO STIR THE POT. THE FDP EDUCATION MINISTER, MOLLEMANN, AND THEIR CHIEF WHIP, BECKMANN, HAVE CALLED FOR A REDUCTION OF DM 1 BILLION IN THE DEFENCE DRAFT. WHILE OTHER SENIOR FDP FIGURES, GENSCHER AND FRAU ADAM-SCHWAETZER FOR EXAMPLE, ARE DISTANCING THEMSELVES FROM THAT POSITION, THIS HAS ALL THE HALLMARKS OF DEVELOPING INTO A MAJOR POLITICAL ROW.

5. ALSO CONTROVERSIAL ARE THE PROPOSALS TO RAISE REVENUE THROUGH INCREASED CONSUMER TAXES (MY TELS NOS 675 AND 695, NOT TO ALL, REFER). THE DRAFT ASSUMES THAT HIGHER TAXES ON PETROL, HEATING OIL, TOBACCO AND INSURANCE PREMIUMS, TOGETHER WITH A NEW TAX ON GAS, WILL RAISE REVENUE BY DM 8.08 BILLION IN 1989, DM 8.63 BILLION IN 1990, DM 9.58 BILLION IN 1991 AND DM 9.63 BILLION IN 1992. THEREAFTER, THE GOVERNMENT HAS CLAIMED THAT IT WILL REPEAL THE GAS TAX ABOUT WHICH THERE HAS BEEN MUCH CRITICISM.

6. THE GOVERNMENT MAY ALSO FACE INCREASING CONTROVERSY ABOUT THE FORECAST FEDERAL BUDGET DEFICIT, OFFICIALLY ESTIMATED AT DM 39.19 BILLION THIS YEAR. ALTHOUGH SOME DETAILS REMAIN UNCLEAR, THIS APPEARS TO BE THE FIRST TIME UNDER THE KOHL GOVERNMENT THAT THE DEFICIT WILL EXCEED INVESTMENT, EXPECTED TO BE AROUND DM 34 BILLION THIS YEAR. IF SO, THE GOVERNMENT WILL FACE CLAIMS THAT IT IS IN BREACH OF THE BASIC LAW. WHEN THIS HAPPENED DURING THE SCHMIDT GOVERNMENT, KOHL BROUGHT A CASE AGAINST HIM IN THE FEDERAL CONSTITUTIONAL COURT, A CASE ON WHICH A DECISION IS STILL AWAITED. IT REMAINS TO BE SEEN WHETHER THE SPD WILL BE TEMPTED TO GET THEIR OWN BACK. THE DEFICIT FOR 1989 IS EXPECTED TO BE DM 31.97 BILLION,

IN 1990 DM 36 BILLION, IN 1991 DM 34 BILLION, AND IN 1992 DM 29.7 BILLION. SERVICING FEDERAL BORROWING IN 1989 WILL COST DM 36.19 BILLION.

7. THE DRAFT BUDGET HAS FOUND FEW SUPPORTERS. THE FEDERAL FINANCE MINISTER, STOLTENBERG, HAS ONCE AGAIN ATTRACTED MUCH CRITICISM. A LEADING BONN NEWSPAPER, RHEINISCHES MERKUR, TODAY SAID THAT HE NO LONGER HAS CONTROL OVER FISCAL POLICY. THE INFLUENTIAL FRANKFURTER ALLGEMEINE ZEITUNG IN AN EDITORIAL SAID THAT THE GOVERNMENT HAS BACK-TRACKED ON THE FISCAL POLICY THAT BROUGHT IT TO POWER, THAT THE COALITION EXISTS IN AN ATMOSPHERE CONSTRAINED BY CONTINUOUS ARGUMENTS AND THAT THE GOVERNMENT HAS LOST CREDIBILITY WITH THE VOTERS. THIS IS A THEME WHICH MAY GATHER MOMENTUM THROUGH THE DOG DAYS OF SUMMER AND WHICH WILL REAPPEAR TO HAUNT THE GOVERNMENT AFTER PARLIAMENT RESUMES IN SEPTEMBER WHEN TRADITIONALLY THE BUDGET AND THE TAX MEASURES WILL RECEIVE THEIR FIRST READING.

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