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FEDERAL GERMAN ECONOMY

SUMMARY

1. CRITICISMS BY OECD AND OTHERS OF GERMAN ECONOMIC PERFORMANCE NOTED, AND IN SOME QUARTERS RESENTED. MEANWHILE, THE ECONOMY IS GROWING FASTER THAN PREDICTED AT THE START OF THE YEAR, WITH EXPORTS AT RECORD LEVELS. THE FEDERAL GOVERNMENT NONETHELESS DETERMINED TO STICK TO ITS TAX REFORM PROGRAMME, AND ATTEMPTING TO GIVE COHERENCE TO ITS ECONOMIC POLICIES.

DETAIL

2. THE PUBLICATION OF THE OECD'S REPORT ON THE FEDERAL REPUBLIC'S ECONOMY ATTRACTED WIDESPREAD ATTENTION, ESPECIALLY THE COMMENTS ON SLOWING GROWTH AND THE RECOMMENDATIONS THAT DETERMINED ACTION BE TAKEN TO IMPROVE EFFICIENCY AND SUPPLY-SIDE CONDITIONS. THE COINCIDENTAL PUBLICATION OF A COMPLIMENTARY OECD REPORT ON THE BRITISH ECONOMY, AND A SERIES OF CRITICAL ARTICLES ON GERMAN PERFORMANCE IN BRITISH AND AMERICAN PAPERS, HAVE LED TO AN OUTBREAK OF TOUCHINESS AND HURT FEELINGS. AT A CEREMONY MARKING THE 125TH ANNIVERSARY OF THE CHEMICAL COMPANY BAYER ON 25 AUGUST, CHANCELLOR KOHL DEPARTED FROM HIS PREPARED TEXT TO CRITICISE QUOTE PEOPLE WHO GIVE LECTURES IN LONDON UNQUOTE ON GERMAN PERFORMANCE WHILE IGNORING THE FEDERAL REPUBLIC'S HIGH PRODUCTIVITY, IMPROVING GROWTH RATE AND LEADING POSITION AS A WORLD EXPORTER. BUNDESBANK PRESIDENT POEHL, SPEAKING THE SAME DAY ABOUT THE RAISING OF THE DISCOUNT RATE FROM 3 PERCENT TO 3.5 PERCENT, ALSO REJECTED CLAIMS THAT THE FEDERAL REPUBLIC HAD BECOME QUOTE THE SLOW MAN OF EUROPE UNQUOTE.

3. THE ECONOMY DOES APPEAR TO HAVE BENEFITED FROM HANDS-OFF MANAGEMENT DURING THE HOLIDAY MONTH. OFFICIAL ESTIMATES EARLY IN THE YEAR OF 2 PERCENT TO 2.5 PERCENT GROWTH ARE BEING REVISED UPWARDS TO 2.5 PERCENT TO 3 PERCENT, WHILE PRIVATE ESTIMATES ARE MOSTLY IN THE 3 PERCENT TO 3.5 PERCENT RANGE. AN IMPROVED PERFORMANCE BY THE

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CONSTRUCTION INDUSTRY, ITSELF ATTRIBUTED TO MORE FAVOURABLE WEATHER THIS YEAR COMPARED WITH LAST, IS CITED AS ONE EXPLANATION FOR THE UP-TURN. EXPORTS ARE ALSO RUNNING AT RECORD LEVELS, MATCHING A HIGH PROPENSITY TO IMPORT ON THE PART OF SOME TRADING PARTNERS, NOTABLY THE UK. A SURVEY OF SME EXPORTERS SHOWS A HIGH DEGREE OF READINESS TO CUT PROFITS IN ORDER TO RETAIN OVERSEAS MARKETS AS EXCHANGE RATES BECOME LESS FAVOURABLE.

4. THE GOVERNMENT IS STICKING FIRMLY TO ITS TAX REFORM PROGRAMME, RESISTING SUGGESTIONS THAT FLOURISHING REVENUES AND NEW ESTIMATES OF BUNDESBANK PROFITS WILL MAKE THE INCREASES IN CONSUMER TAXES PLANNED FOR 1989 UNNECESSARY. AS AN EXAMPLE OF UNAVOIDABLE INCREASES ON THE EXPENDITURE SIDE THE NEED TO COPE WITH AN EXPECTED FLOOD OF REFUGEES FROM THE EAST IS QUOTED: AN EXPANSION OF THE FEDERAL HOUSING CONSTRUCTION BUDGET BY DM 750 MILLION IN EACH OF THE NEXT TWO YEARS, WITH SIMILAR CONTRIBUTIONS EXPECTED FROM THE LAENDER, HAS BEEN OFFICIALLY CONFIRMED WHILE COMMENTATORS EXPECT THE COST TO THE FEDERAL BUDGET TO TOP DM 1 BILLION EACH YEAR WHEN ALL ITEMS ARE INCLUDED.

5. IN HIS SUMMER TV INTERVIEW FROM HIS RETREAT ON THE WOLFGANGSEE BROADCAST ON 14 AUGUST, AND ON SUBSEQUENT OCCASIONS, CHANCELLOR KOHL HAS TRIED TO GIVE COHERENCE TO FEDERAL ECONOMIC POLICY BY PRESENTING TAX REFORM, REFORM OF PUBLIC PROCUREMENT, AND OVERHAUL OF THE SOCIAL SECURITY SYSTEM AS A CONSISTENT PROGRAMME DESIGNED TO ENSURE THE FEDERAL REPUBLIC'S PLACE AS A LEADING INDUSTRIAL AND EXPORTING NATION INTO THE 1990S. GIVEN THE LACK OF SKILL WITH WHICH THE ONE POTENTIALLY POPULAR ITEM ON THE LIST - TAX REFORM - WAS SOLD TO THE ELECTORATE FROM OCTOBER 1987 ON, IT REMAINS TO BE SEEN WHETHER THE GOVERNMENT WILL HAVE MORE SUCCESS IN PRESENTING THE REST OF ITS PROGRAMME (IN FACT A CONCATENATION OF PROBLEMS WHICH CANNOT BE POSTPONED ANY LONGER) IN A POSITIVE LIGHT BETWEEN NOW AND THE NEXT FEDERAL ELECTION.

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