Schmidt Shapes BRD Budget To Fit Grand Design

The 1979 West German budget that Chancellor Helmut Schmidt released on July 28 reflects how seriously the Bonn government is taking the commitments for increased capital investment and fiscal stimulation it signed at the Bremen and Bonn summit meetings earlier in July.

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The overall budget will increase from 189 billion deutschemarks in 1978 to 204.6 billion DM for 1979, an 8.4 percent increase, while there will also be an approximate 10 billion DM decrease in income taxes for wage earners in the lower tax brackets.

This economic stimulation is a far cry from the "locomotive theory" inflation that both U.S. Treasury Secretary Michael Blumenthal and West German Economics Minister Count Otto von Lambsdorff have been trying to get Schmidt to accept for at least a year. Under this misconceived theory, massive across-the-board tax cuts, combined with inflationary budget deficits, would give West Germany enough domestic and international purchasing power to stimulate other countries' economies. Acting as the "locomotive," West Germany would then "pull" other countries into prosperity through its own inflation

Instead of this disguised scheme for British-style Keynesian inflation, Schmidt has generally limited the budget increases to the ministries of Research and Technology, Development, Economics and Youth, Family and Health. In the case of the Research and Technology and Development Ministries, the increase will either go to capital-intensive research and development projects, or to capital-intensive development aid for the Third World, with planned increases of 14.1 and 9.4 percent respectively.

Schmidt's Tax Increase

The increase of 9.2 percent, approximately 3.5 billion DM, in the budget of the Youth, Family and Health Ministry is also connected to the approximate 10 billion DM tax cut. Both the increase in the Youth and Family budget, which is earmarked for expanded subsidies to families with children, and the tax cut for lower-income employees, are part of Schmidt's plan to guarantee that there will be at least a slight improvement in the working class standard of living, concomitant with the increase in productivity and labor power expected under European Grand Design economic expansion.

This additional 13.5 billion DM in wage earners' income will be slightly counterbalanced on July 1, 1979, when a 1 percent increase in the value-added tax, from 12 to 13 percent, will take 3.5 billion DM out of personal income by the end of 1979.

To ensure a continued increase in the federal government's funding of research and development programs, Chancellor Schmidt has also indicated that federal investments in fixed capital will increase by 8.5 percent yearly until at least 1982. Previously, between 1972 and 1978, these fixed-capital items such as transportation and communications improvements only increased by roughly 2.9 percent each year.

The July 29 London *Financial Times*, which has been demanding massive West German inflation for years, views this new budget as appearing "in political terms to be a considerable concession by the Chancellor's Social Democrats to their beleaguered junior coalition partners, the Free Democrats." The New York-based *Journal of Commerce* wrote July 28 that "outside critics" are now complaining that "the macro-economic advantage of the measures now conceived seems dubious. The injection of funds envisaged would have no real multiplier effect."

These "outside critics," who are none other than the City of London and Brookings Institution controllers of Blumenthal and Lambsdorff, have another complaint about Schmidt's 1979 budget in addition to its noninflationary effect. In the budget, Schmidt refused to reduce the payroll tax, the tax on the total amount of wages a company pays, despite Economics Minister Lambsdorff's insistence that business be given this break. The Chancellor said, however, that he will consider abolishing this tax entirely in 1980—when the European Monetary System is in full operation, with corporate profits healthy enough so that they can make up the difference from the cancelled payroll tax.