

The Federal Government's Counter-Cyclical Spending Program (December 20, 1974)

Abstract

To overcome the recession induced by the oil shock, the Bundestag approved a massive stimulus program that included support for private investments, a sizable increase in public spending, and wage supports that aimed to restore domestic demand.

Source

Economic Stimulus Program Can Take Effect—Bundestag and Bundesrat Approve It

The federal government's economic stimulus program can take effect. The Bundestag and the Bundesrat approved the 10 billion DM plan on Thursday after several hours of debate. The majority of the opposition in the Bundestag and [the majority of] the CDU/CSU-governed states in the Bundesrat also supported the federal government's draft plan. The passage of this program paves the way for support to private investments in the amount of 7–8 billion DM, the financing of specific employment assistance measures in the amount of 600 million DM for the purpose of lowering unemployment, and the awarding of public contracts worth 1.1 billion DM. In the current economic situation, financial policy can make an important contribution to the economic recovery by having the "courage to go into debt," as Federal Finance Minister Hans Apel put it.

The need for measures to revive the economy and lower unemployment was also unanimously underscored by speakers of the CDU/CSU. Speaking in the Bundesrat, Minister President of Rhineland-Palatinate [Helmut] Kohl emphasized that the government's package of measures was by all means necessary but still in need of extensive improvements. There had been no time left, however, to make the necessary changes to the program. The approval of the CDU/CSU, he said, should not necessarily be taken as a sign that the Union parties regard the planned economic measures as good and proper. Rather, as he noted, the CDU/CSU simply doesn't want to give the federal government any pretext right now "to create a convenient propaganda bogeyman for the economic failures of the future." The motion by the state of Baden-Württemberg to appeal to the mediation committee [between the Bundestag and the Bundesrat] was not supported by the CDU/CSU-governed states and did not manage to secure a majority in the Bundesrat.

Friderichs: A Certain Scattering Effect

Speaking before the representatives of the federal states, Federal Economics Minister [Hans] Friderichs admitted that the granting of an investment allowance would have a certain scattering effect. Investors who would have awarded contracts between December 1974 and June 1975 regardless [i.e., with or without government support] now stand to benefit from the economic stimulus program. But this side effect, he explained, would have to be accepted in the interest of maintaining overall economic control. Besides, he noted, a selective application of the Investment Allowance Act would be unusually difficult.

According to the federal economics minister, the decision of the German federal bank to limit the increase in the monetary supply to eight percent is a good precondition for financing the upswing without creating room for cost transference. He said that he welcomes this decision because the economic stimulus program can only contribute to the revival of the economy when other prerequisites are met as well. Related to this is the question of how large a cost burden the economy will face next

year. As the federal economics minister explained, the drop in raw materials prices and the move away from high interest rate policy means that two cost factors are already approximately calculable. If the wage policy remains within its present framework, then the program can receive his ultimate support. The economic stimulus program, he continued, is not a long-term plan for economic revival; rather it is a short-term measure to spark the business cycle at the desired earlier point in time. Psychological factors play a very significant role in this process, he explained.

The Union parties are extremely skeptical about the prospect of a premature revival of the economy. Suggestions to modify the proposal, however, were rejected by the majority in the Bundesrat. Bavarian finance minister [Ludwig] *Huber* spoke out in favor of relieving the burden on the economy through tax reductions rather than short-term cash injections. Therefore, he is of the opinion that it would be useful to introduce the option of loss carrybacks, since this sort of measure would also provide help to businesses that cannot take advantage of the allowance because they are incapable of investing. Schleswig-Holstein economics minister [Jürgen] *Westphal* called for the introduction of immediate advance payments of the investment subsidy, so that even financially weaker businesses would be able to invest without pre-financing the funds they expect to receive. In the opinion of [Rudolf] *Eberle*, economics minister of Baden-Württemberg, an upper limit for projects eligible for subsidies should be set at 50 million marks.

[...]

During the second and third reading of the economic stimulus program in the Bundestag, SPD deputy Alex *Möller* characterized the planned package of measures as “balanced and appropriate to the situation.” A sustainable revival of the economy, he said, cannot be achieved through subsidies. According to him, the program represents an optimal combination of measures to promote investment and increase demand. Because it is unclear what financial effects the program will have on the public budget, CDU deputy [Ernst] *Müller-Hermann* described it as an “unguaranteed check drawn on the future.” According to him, the attempt to gradually compensate for dwindling foreign demand with increased domestic demand is full of imponderables and risks. With their socialist experiments in tax, social, and regulatory policy, he said, the coalition triggered a crisis of confidence in industry that cannot be corrected by an economic stimulus program. Federal Finance Minister *Apel* emphasized his view that the program could in fact bring about an economic upswing in the early summer.

Essential amendments to the government draft, which were made by the Bundestag committees on Wednesday in response to new considerations by the federal government, were accepted by the Bundestag without any changes. These amendments pertain above all to the law on investment subsidies for rental apartments, cooperative apartments, and residential homes in subsidized housing projects. According to the promulgated version of the law, any builder of rental housing for which funds for subsidized housing projects are being used can also apply for the investment subsidy of 7.5 percent. This applies to structures for which building permits were filed after November 30, 1974, and before July 1, 1975, or to those on which construction began within the same period. Consideration is only given, however, to apartments that are not intended for further sale (i.e., condominiums) and are not intended as property (for use by the owner).

During the Bundestag debate, Federal Chancellor [Helmut] Schmidt incurred the growing displeasure of the parliamentarians in the opposition, who continually interrupted him with shouting, because he insulted them as a “gang of hecklers.” At the end of the debate, however, the chancellor backed down a bit: In light of the upcoming Christmas holiday, he explained, he would now correct his statement and say, “You are, of course, a most honorable group of people.”

Source: “Konjunkturprogramm kann in Kraft treten—Bundestag und Bundesrat stimmen zu,” *Süddeutsche Zeitung*, December 20, 1974, pp. 1–2. Republished with permission.

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