# Germany debates dirigist economics

by Rainer Apel

In a happy departure from the shibboleths of Anglo-American free market economics, on May 20 German President Richard von Weizsäcker suggested that the best way for Germany to rapidly reconstruct the areas which were recently liberated from communism, would be to impose a "burden sharing" tax on the significant capital gains which some German citizens have been raking in. But the President received sharp rebuffs from circles in banking and savings, and from various financial policy "experts"—which is hardly surprising, given the refusal so far of Germany's economic leaders to adopt dirigist nation-building policies.

The tone from the economic commentators in the western German press has been generally negative as well. The daily *Frankfurter Allgemeine Zeitung* became downright abusive: Its chief commentator on free market questions, Hans D. Barbier, huffed that the President is "not, after all, the government's economic policy adviser. Economic efficiency is hardly the foremost criterion in his mind." German Chancellor Helmut Kohl likewise allowed himself to be swayed once more by his council of experts, and rejected the President's proposal.

The President did, however, receive backing from the Social Democratic Party (SPD), the German Trade Union Confederation (DGB), the social welfare committees of the Christian Democratic Union (CDU), and from the CDU parliamentary delegations from Germany's five new eastern states, where western free-market propaganda is regarded with profound distrust.

What did Weizsäcker actually intend to set into motion with his proposal? He stated that current discussions about an across-the-board wage freeze or additional general taxes in order to finance the costs of reunification, are simply not in keeping with the dimensions of the problem. Germany is confronted with a challenge, he said, which could only be met by something like the "burden sharing" program implemented during the years of postwar reconstruction. A special tax on stocks, obligations, and assets of banks and savings institutions—other categories of assets would be explicitly excluded—should be considered: "In the old Federal Republic [formerly West Germany] we currently have monetary assets on the magnitude of 3 trillion marks. No one can even imagine that number." (The current conversion rate is $1 to 1.65 deutschemarks.) Thus, the annual profits from monetary assets (which amount to more than DM 200 billion at current interest rates) could be drawn upon by means of a tax similar to the burden sharing program practiced from 1949 onward. Just as back then, the proceeds would be put toward bolstering the "investment power" of the German economy.

## The 'economic miracle' reconsidered

President Weizsäcker was hearkening back to a measure which brought in nearly DM 140 billion—a lot of money in those days. Beginning on the same day as West Germany's currency reform of June 21, 1948, all real capital assets—with the exception of cash, farming establishments, and industrial enterprises—were assessed; half of the assessed value had to be paid to the government, with the exception of assets under DM 5,000, which were not taxed, and with reduced rates for assets under DM 35,000. Payment of the tax was spread over a period of 30 years, so that the burden was kept within manageable bounds. Otherwise, real capital gains were left untouched following 1948-49. The payments into the burden-sharing fund were a crucial factor in Germany's postwar "economic miracle."

It should be kept in mind, however, that the postwar burden-sharing arrangement did not directly benefit productive industry—in contrast to the President's current proposal, which would go toward new housing construction and infrastructure projects in the eastern states. Beginning in 1949, burden-sharing payments went to individual recipients in the form of emergency, household equipment, and reconstruction aid, as well as pensions for injured veterans. The money had the effect of strengthening consumer demand for goods from the productive economy. Beyond the general idea of national solidarity in the reconstruction effort which had inspired the plan, its chief advantage lay in the fact that it guaranteed a constant flow of funds over a long period, and thus constituted an element upon which a predictable financial policy could be based. Today, 100,000 German citizens are still receiving payments from the burden-sharing pension fund.

Richard von Weizsäcker did not intend his suggestion to be taken up as an elaborated program, but rather as a contribution to the running debate about how to cover the costs of German reunification. It is useful insofar as it calls into question one of the most zealously defended taboos of the economic debate up to this point—the ostensibly "untouchable" structures of banking and finance—and points a way beyond dead-end debates over which part of the budget to cut. His demand to put the funds primarily into productive investment projects such as housing construction and infrastructure, is correct.

But the proposal is problematic in the long run, since it presumes a continuation of current high interest rates for its success. What is really required, is not just a punitive tax on pure monetary gains, but long-term, low-interest credit for productive investment.