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ECONOMIC SURVEYS

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

GERMANY

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

JULY 1975

## BASIC STATISTICS OF GERMANY (F.R.)

### THE LAND

Area, 1972 (thousand km <sup>2</sup> )	249	Major cities, 31.12.1973 census:	Million inhabitants
Agricultural area, 1972 (thousand km <sup>2</sup> )	135		
Forests, 1972 (thousand km <sup>2</sup> )	72	Berlin (West)	2.1
		Hamburg	1.8
		Munich	1.3
		Cologne	0.8
		Essen	0.7
		Düsseldorf	0.6
		Frankfurt	0.7
		Dortmund	0.6

### THE PEOPLE

Population, 1.7.1974	62 074 000	Labour force total, 1974	26 813 000
No. of inhabitants per km <sup>2</sup>	249	Civilian employment, 1974	25 705 000
Net natural increase in population, 1973	-95 400	of which: Agriculture	1 932 000
Net immigration, 1973	384 000	Industry	12 737 000
		Other activities	11 036 000

### PRODUCTION

GDP, 1974 (billions of DM)	997.9	Origin of GDP, 1974 (per cent):	
GNP per head, 1974 (US \$)	6 200	Agriculture, forestry, fishery	3
Gross fixed investment (average 1972-1974):		Industry (incl. construction)	51
Per cent of GNP	24	Services	46
Per head (US \$)	1 290	Home food production as a percentage of total consumption of food and feed products (annual average 1972-1973)	61

### THE GOVERNMENT

Public consumption, 1974 (per cent of GNP)	19.7	Composition of Federal Parliament:	
General government current revenue, 1974 (per cent of GNP)	42	Christian Democrats	225 seats
Public debt 1973 (ratio to general government current revenue)	45	Social Democrats	230 —
		Free Democrats	41 —
		Last election: 19th November 1972	
		Next election: 1976	

### FOREIGN TRADE

Exports:		Imports:	
Exports of goods and services as per cent of GNP (average 1972-1974)	26	Imports of goods and services as per cent of GNP (average 1972-1974)	23
Main exports, 1974 (per cent of total merchandise exports):		Main imports, 1974 (per cent of total merchandise imports):	
Products of agriculture, forestry and fishing	1	Products of agriculture, forestry and fishing	11
Basic materials and semi-finished goods	34	Basic materials and semi-finished goods	46
Manufactured foods and tobacco	4	Manufactured foods and tobacco	7
Other consumer manufactures	10	Other consumer manufactures	14
Investment goods	50	Investment goods	19
Other exports	1	Other imports	3
Total	100	Total	100

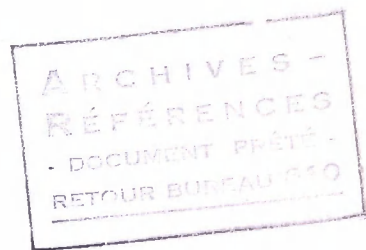
### THE CURRENCY

Monetary unit: Deutsche Mark	Currency units per SDR, as of May 1975 :	3.22
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NOTE Figures include the Saar and West Berlin.

An international comparison of certain basic statistics is given in an annex table.

OECD ECONOMIC SURVEYS



# GERMANY

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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- to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.*

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\*\*

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## INTRODUCTION

Over the past twelve to eighteen months both demand and inflationary pressures have eased more than expected a year ago. Despite a relaxation of fiscal restraint as early as December 1973 and a gradual expansionary reorientation of policies since the spring of 1974, final domestic demand weakened further. Exports in real terms remained flat—though on a high plateau—during most of 1974, and have been declining sharply since December 1974. Production has been falling since the second quarter of last year, entailing a sharp increase in unemployment and short time working. At the same time the advance of consumer prices has decelerated significantly since the middle of 1974 and rates of wage increases were almost halved in the 1975 spring wage round. Reflecting the growing slack at home and the strong increases in merchandise exports in 1973 and 1974, the current balance of payments surplus more than doubled between these two years, thus exceeding by a substantial margin the rise predicted in early 1974. Nevertheless, the overall balance of payments showed a slight deficit due to large capital outflows. The current surplus is expected to decline in 1975 but to remain considerable.

Part I of the present Survey outlines the main features of Germany's most serious post-war recession and compares the behaviour of the economy with earlier business downswings. Part II analyses the role of stabilisation policies in the recent past and assesses the contribution of present monetary and fiscal policies to the expected revival of economic activity. The likely strength of the anticipated upswing and possible implications for the labour market are considered in Part III. The main conclusions of the Survey are summarised in Part IV.

## I THE 1973/1975 BUSINESS DOWNTURN IN RETROSPECT

### *Historical review*

The present downswing began in the middle of 1973. It was preceded by a short-lived though marked recovery from the 1971/72 business slowdown. Given the mildness of this slowdown the recovery started from a relatively high level of activity and was accompanied by an unacceptably high rate of inflation. As the growth of demand and output expected by the authorities considerably exceeded official targets, it was widely felt that early policy action was required to prevent an overheating of the economy. Following the transition to a system of "managed floating" in the spring of 1973, monetary policy was progressively tightened and in May 1973 the Federal Government adopted a rather tough anti-inflationary programme<sup>1</sup>. The dampening impact of the policy of financial and monetary restraint on domestic demand was felt very quickly. As can be seen from Diagrams 1 and 6, the growth rates of all major components of domestic demand and output (in volume terms) fell significantly below their medium-term trend

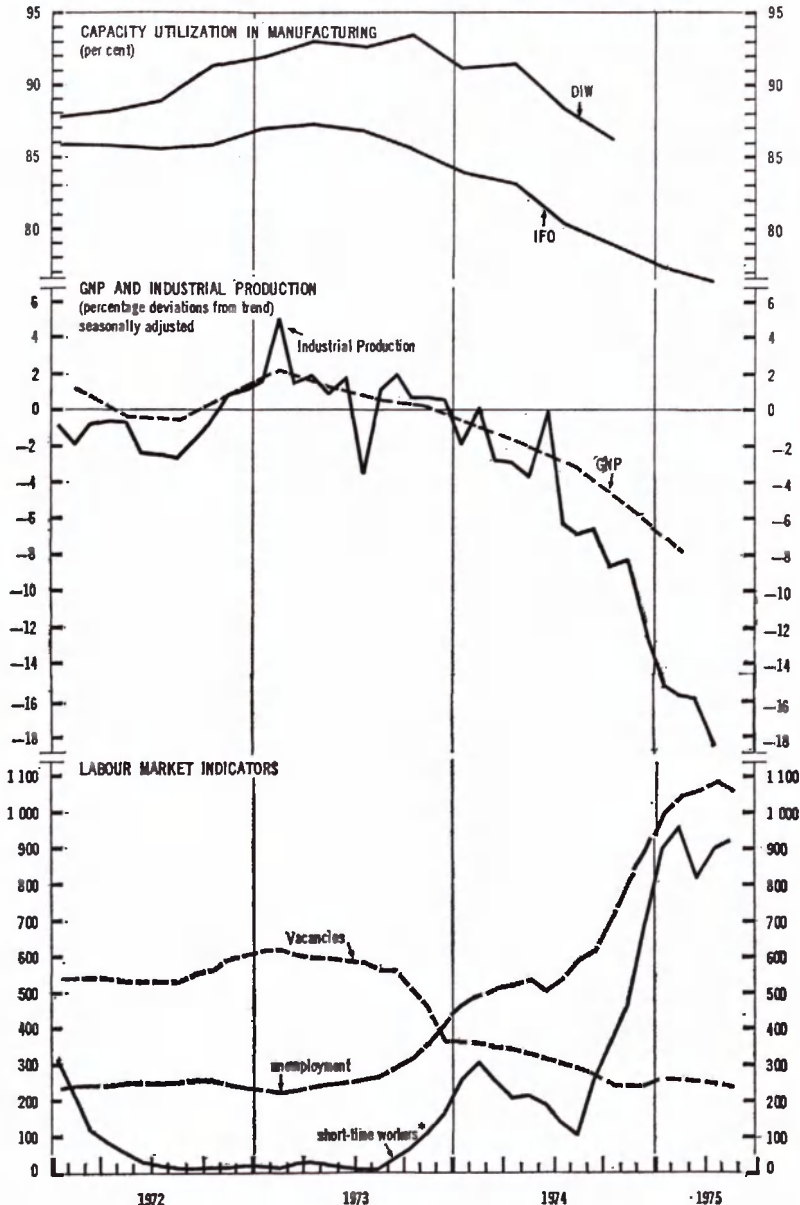
<sup>1</sup> Cf. Annex III of last year's Economic Survey of Germany for a detailed description of the individual measures pertaining to the May 1973 stabilisation package.



values already in the second half of 1973 and unemployment began to rise rapidly. The structural weakening of residential construction and the loss of competitiveness of the automobile sector associated with the cumulative appreciation of the Deutschemark reinforced the contractionary impact of economic policy measures.

In October 1973 the outbreak of the oil crisis radically changed the environment in which the economy was evolving. The trebling of crude oil prices exerted

Diagram 1 Major Output and Employment Indicators



\* Not seasonally adjusted.

Source: OECD Secretariat.



simultaneously a (price) inflationary and (demand) deflationary impact on the economy. Fiscal policy responded quickly to the latter by abolishing in December most of the restrictive measures imposed in May, thus counteracting the deflationary effects of higher oil prices on real disposable income. At the same time the Bundesbank—in accordance with a government-agreed policy strategy—was primarily concerned to slow down the price/wage spiral by limiting the expansion of monetary aggregates. The relaxation of fiscal restraint coincided with the start of the 1974 wage bargaining round and may have been misinterpreted by unions and employers as an indication that the Government—despite official assertions to the contrary—had changed its priorities from price to employment stabilisation. Some temporary strengthening of activity in the wake of the fiscal policy measures, mainly in response to persistently strong exports, reinforced the public's bullish price expectations for 1974. With inflation widely expected to accelerate to at least 10 per cent (from a year-on-year rate of some 8 per cent in December 1973) average contractual wage increases reached about 14 per cent (on an hourly basis, including fringe benefits).

In pursuance of the agreed monetary policy targets, but contrary to widespread expectations, the Bundesbank did not accommodate the higher nominal wage increases by an easing of credit conditions. Consequently, businessmen were on average unable to fully pass on cost increases resulting from the high wage settlements and the upsurge in raw material prices. The tight monetary situation produced an unexpected moderation in price inflation during 1974, but it also entailed a severe profit squeeze, to which business responded by cutting both investment and employment. By the middle of 1974 it became clear that the feeble signs of an upswing discernible in the spring had been misleading, and that the employment situation continued to deteriorate. Nevertheless, the authorities refrained from taking discretionary stimulatory measures as they were still expecting some recovery later in the year and counted on an early and strong expansionary effect from the 1975 fiscal reform. Furthermore, they feared that too early a shift in policy priorities would jeopardize apparent stabilisation gains and encourage a repetition of inflationary wage settlements during the autumn and spring bargaining round. Thus it was not until September 1974, when there were clear indications of an unacceptable deterioration of the employment situation, that the Government announced two successive support programmes and the Bundesbank indicated its willingness to gradually loosen its credit restrictions. These moves towards a more expansionary policy stance were accompanied by

Table 1 Developments of Key Wage Contracts

	Percentage share in total dependent labour force (1973)	Rate of Increases in Contractual Wages <sup>1</sup>			
		1971/72 <sup>2</sup>	1973	1974	1975
		<i>Per cent</i>			
Iron and steel	1	10.5	9-11	9-11	..
Public sector	19	7	8.8	12.6	6.0
Retail trade	11	10-15	8.2-13.5	11-16.0	..
Metal industry	21	7.5	8.6	11-11.6	7.0
Chemical industry	3	5.6-7.8	9.9-10.8	12.9	6.8
Construction	8	6.4-7.9	9.7	11.2	6.6
Total economy <sup>3</sup>	100	8.7	11.1	13.7	..

1 Percentage ranges indicate regional differentiation between contracts.

2 Average annual increase of contracts with more than twelve months duration.

3 Growth rate of contractual wage index (December over December).

Sources: Bundesministerium für Wirtschaft and OECD Secretariat.

explicit warnings to both sides of industry that this policy could only be maintained provided wage settlements in 1975 were substantially below the previous ones. This message was taken seriously by employers and unions as wage increases fell drastically compared to the preceding round (Table 1).

Cost and price developments over the past two years reflect both the inflationary impulses emanating from world markets and wage settlements, as well as the stabilisation efforts of economic policy (Diagram 2). Import prices for raw materials and intermediate goods remained on a high level throughout 1974, following a 30 per cent increase in the course of 1973. Since the third quarter of last year, however, a gradual decline has set in, reinforced by the appreciation of the Deutschmark. Unit wage costs rose sharply in the wake of the oil crisis, reflecting anticipated high rates of inflation during the spring 1974 wage round. Despite these considerable cost-push elements, industrial producer prices have shown clear signs of deceleration since the start of the second quarter of last year, as the passing on of cost increases was rendered difficult by weak demand and restrictive monetary policy. Since the same factors restrained price increases at the retail level, the widespread fear that inflation would accelerate to two digit figures did not materialise. At the cost of stagnating profits, the increase in the consumer price index during 1974 was kept at 7 per cent, no higher than in 1973. Since the beginning of the current year, the rate of inflation has been even lower. The traditionally high German relative price stability increased rather impressively during the past two years, partly because the early checking of the incipient 1973 boom in Germany was not paralleled by similar policy actions abroad (Table 2).

The differential development of prices and economic activity in Germany and abroad during 1973/74 had important repercussions on Germany's external payments position (Table 3). Despite rather erratic and pronounced fluctuations

**Table 2 Relative German Price Performance**  
Percentage changes in consumer prices from previous period, not seasonally adjusted

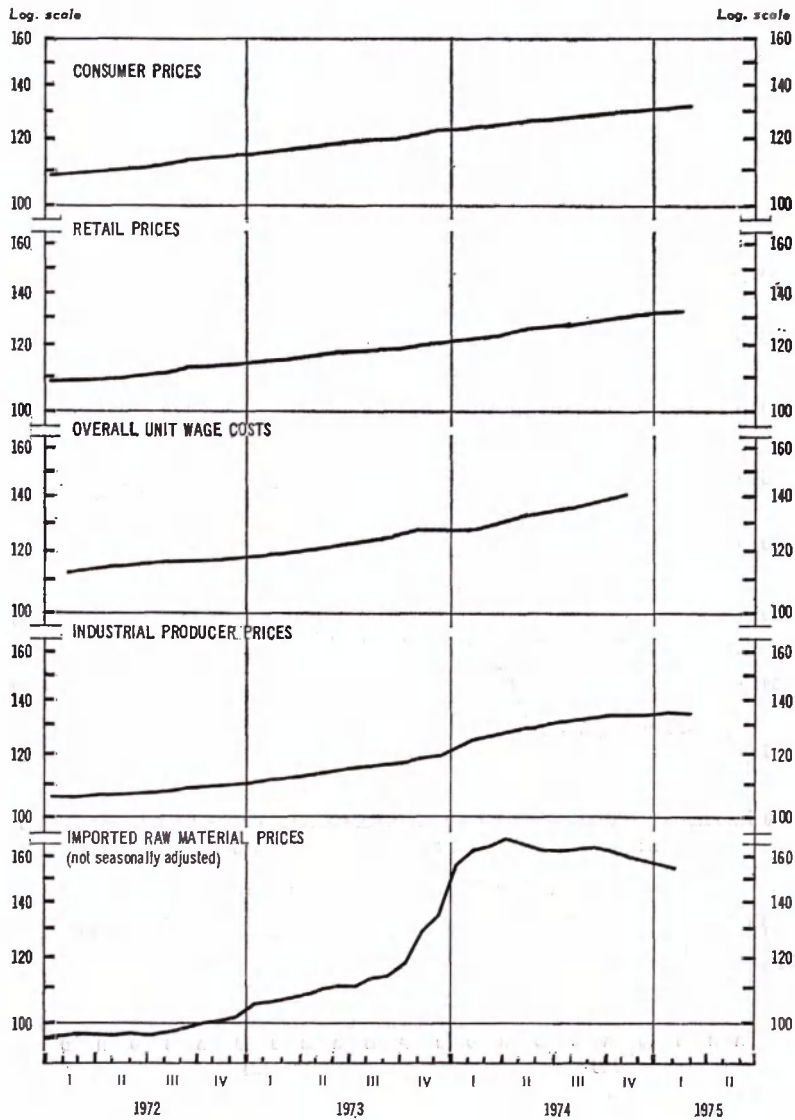
	At annual rate				At monthly rate				
	Av. 1962- 1972	1973	1974	12 months to May 1975	1975				
					Jan.	Feb.	Mar.	April	May
Germany	3.2	6.9	7.0	6.1	0.9	0.5	0.5	0.8	0.6
France	4.4	7.3	13.6	12.1	1.1	0.8	0.8	0.9	0.7
Italy	4.3	10.8	19.1	19.7	1.3	1.5	0.1	1.3	0.8
United Kingdom	4.9	9.2	16.0	25.0	2.6	1.7	2.0	3.9	4.2
Belgium	3.8	10.4	12.6	13.7	1.1	1.1	0.7	1.1	0.8
Luxembourg	3.4	6.1	9.5	10.1	0.7	1.5	0.7	1.2	0.6
Denmark	6.0	9.3	15.2	12.0	0.1	0.3	0.8	0.3	1.4
Ireland <sup>1</sup>	5.8	11.4	17.0	24.5		2.7			2.0
Netherlands	5.4	8.0	9.6	10.4	0.9	0.3	1.4	1.2	0.6
Austria	3.9	7.6	9.5	8.6	1.1	1.0	0.4	0.5	0.2
Switzerland	4.0	8.7	9.8	8.2	0.6	0.4	0.4	0.2	0.7
Sweden	4.7	6.7	9.9	10.8	-0.4	1.0	0.5	0.2	0.6
Norway	5.1	7.5	9.4	12.4	2.5	0.6	1.1	0.7	0.5
Canada	3.3	7.6	10.7	10.1	0.5	0.8	0.5	0.5	0.8
United States	3.3	6.2	11.0	9.5	0.5	0.7	0.4	0.5	0.4
Japan	5.7	11.7	24.4	14.1	0.5	0.3	1.0	2.2	0.7
Total OECD <sup>2</sup>	3.9	7.9	13.3	12.0	0.8	0.8	0.7	1.1	0.8
OECD Europe <sup>2</sup>	4.5	8.6	12.8	13.9	1.4	1.0	1.0	1.5	1.2
EEC (enlarged) <sup>2</sup>	4.2	8.3	12.6	13.9	1.4	1.0	0.9	1.5	1.3

1 Quarterly index.

2 1973 private consumption weights and exchange rates.

Source: OECD.

**Diagram 2 Cost and Price Developments**  
Seasonally adjusted, 1970 = 100



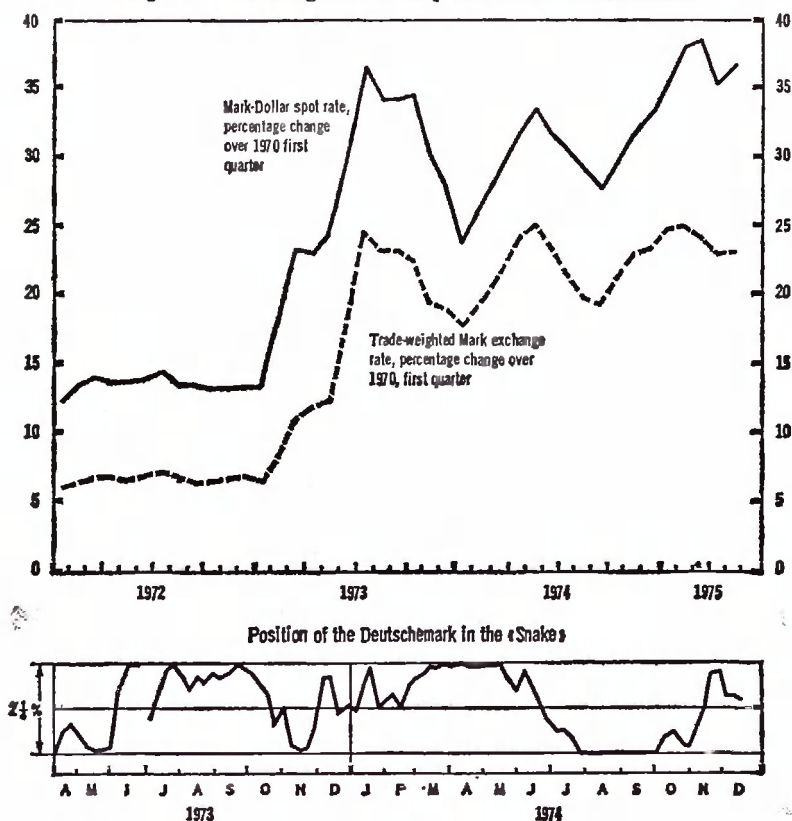
Sources: Bundesbank, OECD.

in the exchange rate of the Deutschemark (Diagram 3) export volumes expanded rapidly up to the middle of 1974 and stagnated at a high level until December. Since then, however, there has been a strong declining tendency. Germany's remarkably strong export performance<sup>2</sup> during 1973 and the first half of 1974 is likely to have been caused mainly by the higher demand level in her trading partners and competitor countries. Other factors contributing to the unprecedented

<sup>2</sup> For a detailed analysis of German export performance up to 1973 based on the market share approach see last year's Economic Survey, Chapter II and Annex II. The major determinants of strong German export performance in 1973 continued to prevail in 1974.

export surge were the boom conditions in some sectors of the world market (e.g. iron and steel) as well as temporary increases in foreign demand induced by labour market conflicts abroad and unrest in foreign exchange markets. For the same reasons, import volumes showed much less buoyancy during the same period. Consequently, the current balance reached unprecedented surpluses of \$4.5 billion in 1973 and \$9.3 billion in 1974. The large current surplus in 1974 was more than offset by capital outflows due to international interest rate differentials and expansion of export credits, so that official reserves of the Bundesbank decreased by DM 2 billion during the year.

Diagram 3 Exchange rate developments of the Deutschmark



Sources: OECD Secretariat. Deutsche Bundesbank.

### Specific features of the present recession

During the past ten years, aggregate economic activity has in three instances fallen significantly below the medium-term trend level. These low or negative growth periods have occurred at roughly four-year intervals, in 1967, 1971 and at present. In this section the behaviour of selected major economic variables during the three downswings are compared in order to identify possible implications for economic policy<sup>3</sup>. It will be seen that though many similarities exist between

3 Earlier (pre-1964) downswings seem less appropriate for comparison with the present business cycle phase, either because of their brevity and/or the dominating effects exerted by weather conditions (the 1962/63 period), or because they lie too far back in the past to make a comparison appear useful, given the significant changes in the environment that have since occurred (the 1958/59 and previous downswings).



Table 3 Balance of Payments: Recent Trends  
DM billion

	1973	1974	1974				1975				
			Q1	Q2	Q3	Q4	Q1	Q2 <sup>1</sup>	April	May	June <sup>1</sup>
<i>Seasonally Adjusted</i>											
Exports	179.6	235.4	56.3	57.7	61.1	60.3	55.7	55.6	18.9	16.4	20.3
Imports	139.7	179.1	40.8	43.7	48.1	46.6	41.2	43.9	15.5	12.8	15.6
TRADE BALANCE	39.9	56.2	15.6	14.0	13.0	13.7	13.7	11.7	3.4	3.6	4.7
Invisibles	-28.4	-32.2	-8.1	-7.4	-8.3	-8.4	-8.0	-7.7	-2.8	-2.9	-3.0
CURRENT BALANCE	11.5	24.1	7.5	6.6	4.7	5.2	5.7	3.0	0.6	0.7	1.7
<i>Not Seasonally Adjusted</i>											
Current balance	11.5	24.2	7.4	5.6	2.3	8.8	5.5	1.9	0.7	0.5	0.7
Long term capital	12.4	-5.7	-0.7	-0.5	-2.2	-2.3	-0.4	..	-1.9	..	..
Basic balance	23.9	18.4	6.7	5.1	0.1	6.6	2.1	..	-1.2	..	..
Short-term non-monetary capital <sup>a</sup>	7.6	-10.6	-6.7	-0.4	-2.9	-0.8	3.8	..	3.0	..	..
Balance on non-monetary transactions	31.6	7.8	0	5.0	-2.9	5.7	6.1	..	1.8	..	..
Banking short-term capital	-5.1	-9.7	-0.4	-1.6	-3.6	-4.1	-1.1	..	-4.3	..	..
Balance on official settlements	26.4	-1.9	-0.5	3.4	-6.4	1.6	5.0	..	-2.6	..	..
<i>Memorandum item:</i>											
Current balance in million US \$ (not seasonally adjusted)	4 307	9 305	2 767	2 309	742	3 427	2 370	935	420	215	300

<sup>1</sup> Preliminary.

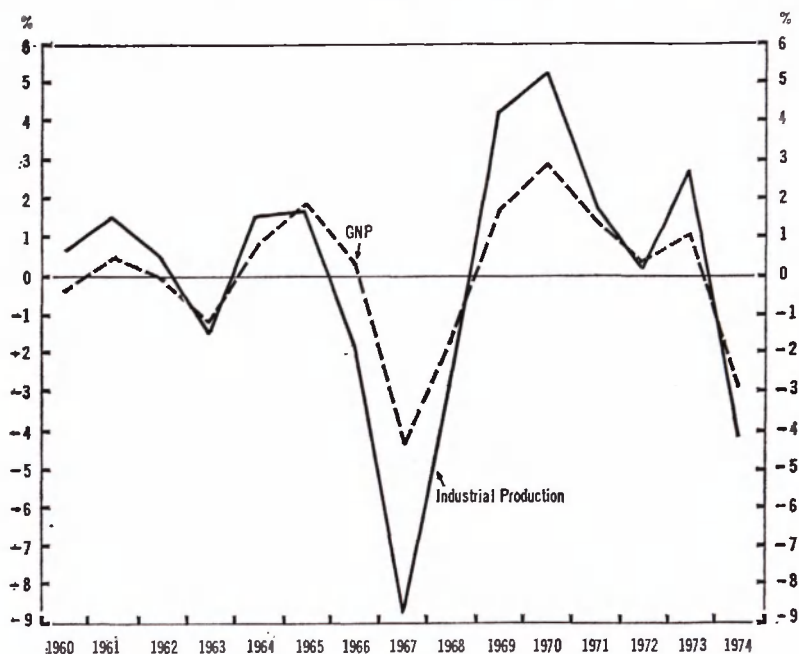
<sup>2</sup> Includes errors and omissions.

Totals may not agree due to rounding.

Source: OECD Secretariat.

recent and previous behaviour, there are also significant differences. In the following analysis, the trough of a downswing is defined as the calendar quarter during which the index of industrial production reaches its maximum negative deviation from trend. The trend line has been calculated from the beginning of 1960 to the middle of 1974. The two previous downturns are therefore centred on the second quarter of 1967 and the fourth quarter of 1971. As a working hypothesis it is assumed here, in line with official thinking, that the trough of the present recession will be in the second quarter of 1975. The span of observation for each downswing goes from five quarters before the trough to four quarters afterwards. This two and a half year period thus covers rather more than half a complete cycle. Diagram 4 shows how industrial output and GNP have fluctuated over the past fifteen years, while Diagram 5 juxtaposes the deviations from trend of the same aggregate output measures for the three reference cycles.

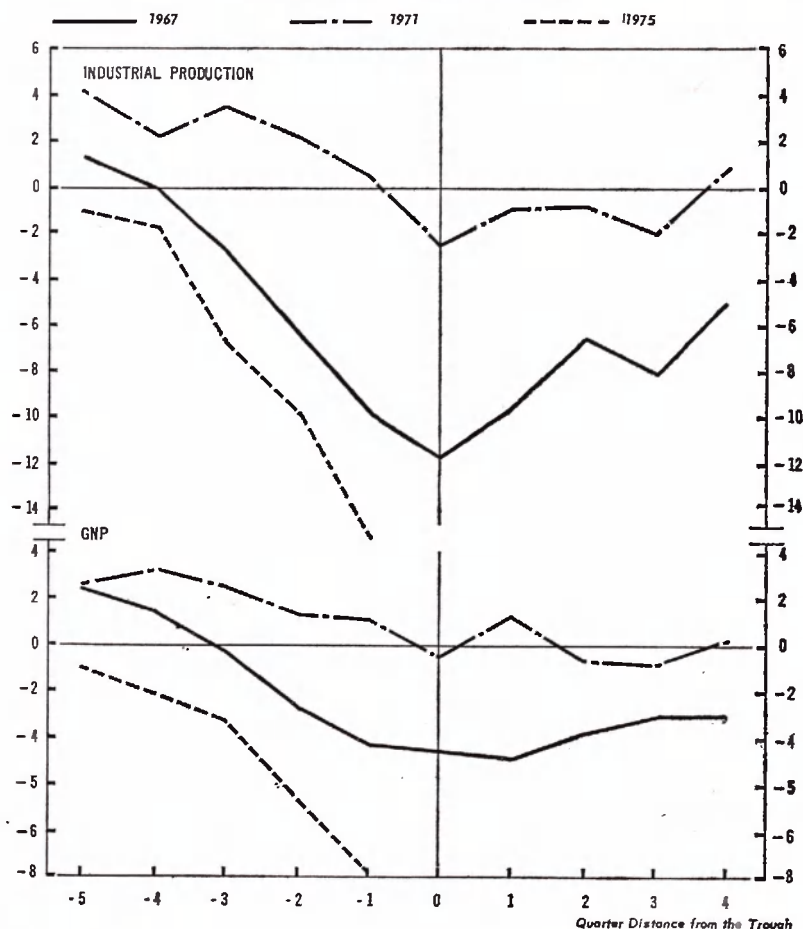
Diagram 4 Trend Deviations of GNP and Industrial Production



Source: OECD Secretariat.

It is clear from Diagrams 4 and 5 that the 1971 downswing was far milder than either that of 1967 or the present one. Indeed, it represented little more than a prolonged pause in the medium-term growth of the economy. The present recession is therefore more comparable to that of 1967. In many respects, however, it is more serious. As can be seen from Diagrams 5 and 6, the major components of private domestic demand have not only been falling below trend at least as rapidly as during the 1967 recession, but also started from a considerably lower level relative to the previous trend. This is particularly true for residential construction where the downswing was preceded by an excessive speculative boom, which ended in late 1972 and which subsequently gave way to a structural downward adjustment of housebuilding to a more sustainable medium-term trend level. It holds, however, also for other private investment and for

**Diagram 5 Comparison of Industrial Production and GNP During Recent Downswings**  
 Percentage deviations from trend



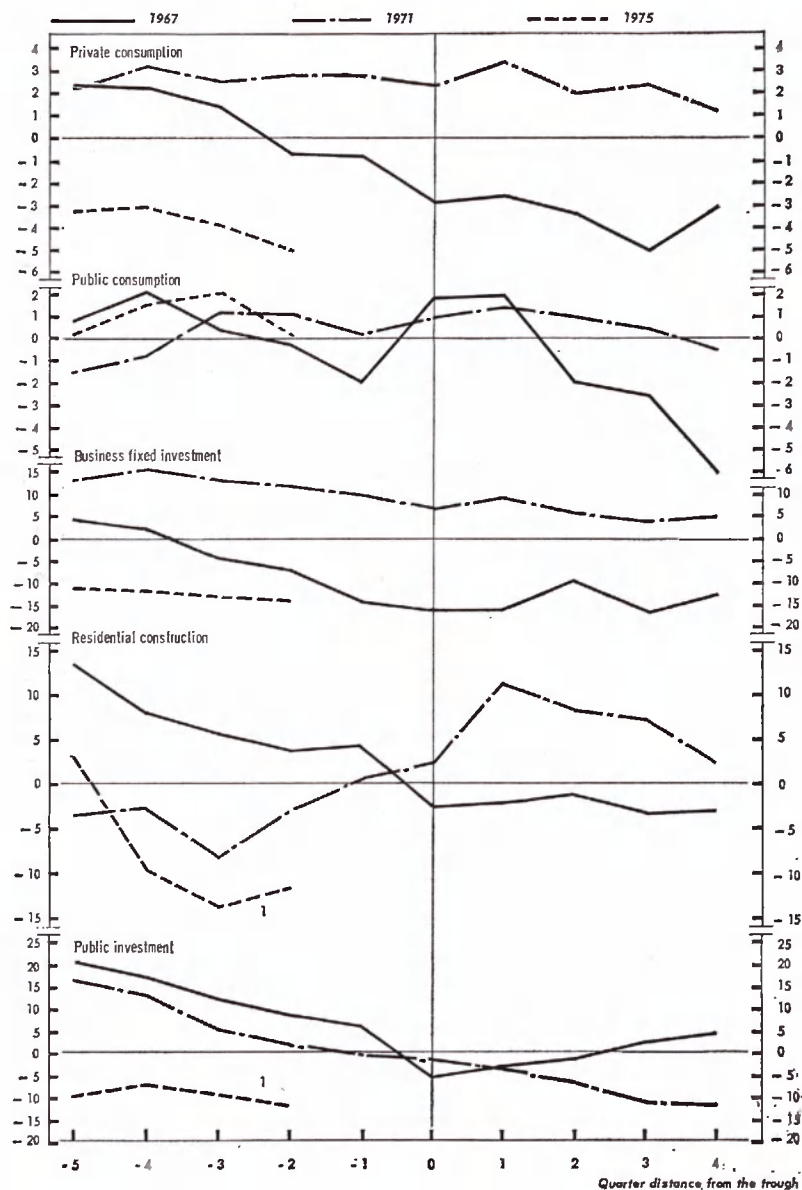
Source: OECD Secretariat.

private consumption. This unprecedented weakness of private demand has been to some extent offset by a more anticyclical stance of public consumption and public investment than in previous cycles, and particularly by an exceptionally strong rise in exports during the early phase of the downswing.

During the 1967 recession, the fall in imports cushioned the contractionary effects of the fall in domestic demand, while exports (and export orders) fell significantly below trend in the initial stage of the recession, but then strongly supported and actually led the subsequent upswing (Diagram 7). As external demand was buoyant during 1968, German exporters were able to increase their sales rather easily, especially since the Deutschmark was probably undervalued at the time. Under present circumstances, with domestic demand stagnating since mid-1973, the external balance was already providing an exceptionally high level of support to aggregate demand before the downturn in activity gathered force. Consequently, a repetition of the 1967 recovery sequence (exports—fixed investment—private consumption) is improbable. Therefore, domestic demand components will have to take the leading role in any viable upswing (see Part III of this Survey).



**Diagram 6 Comparison of Aggregate Demand Components During Recent Downturns**  
Percentage deviations from trend

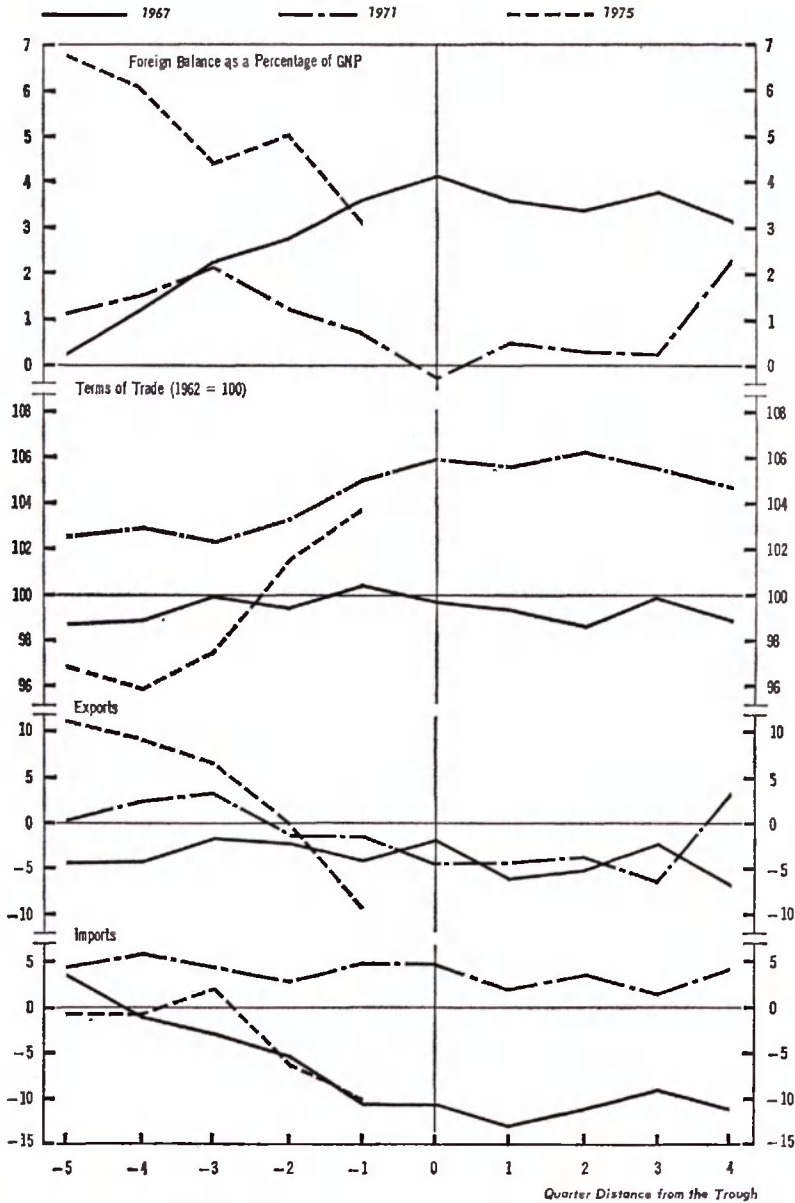


1 Affected by abnormal weather conditions.

Source: OECD Secretariat.

With its heavy dependence on exports (about 25 per cent of total demand in 1974), the German economy is very susceptible to the vagaries of world trade. In the present recession, with domestic demand already depressed and external demand now falling rapidly, the repercussions on output levels have been severe. Industrial production was sustained by buoyant export demand during most of

Diagram 7 Comparison of Selected Foreign Trade Indicators During Recent Downswings

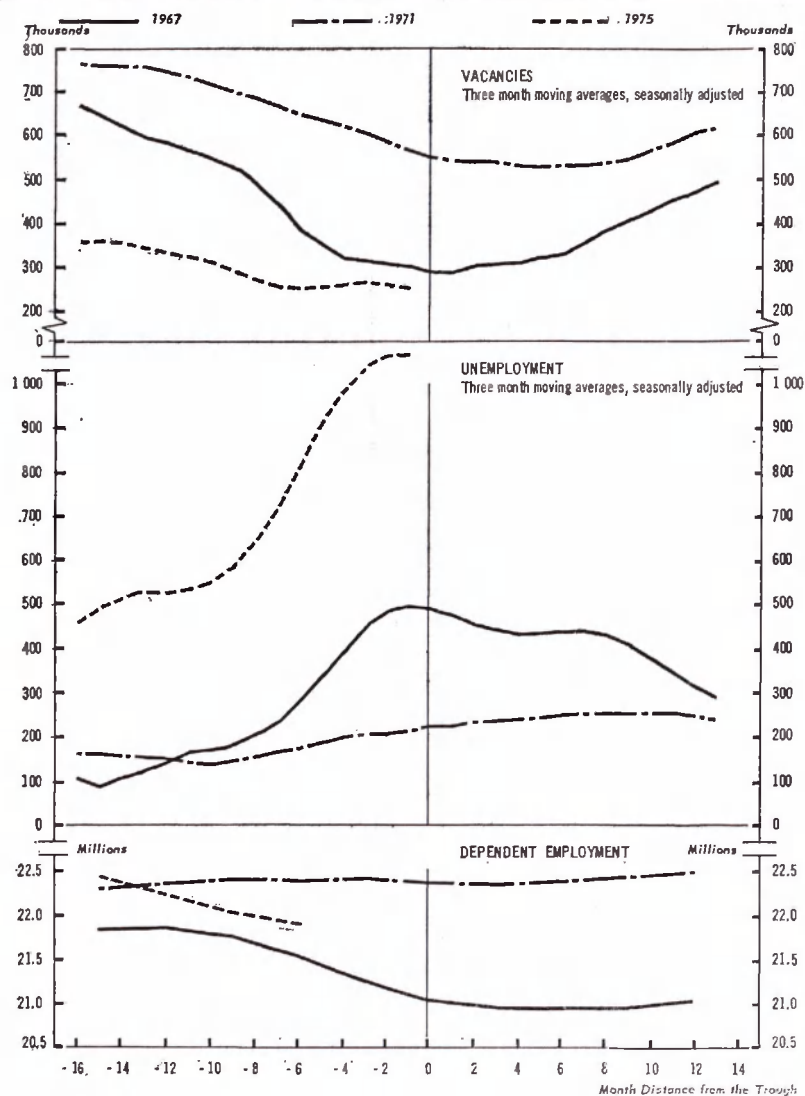


Source: OECD Secretariat.

1974, but fell sharply towards the end of the year. It is now considerably further below trend than during the 1967 recession, and barely above the level of five years ago. Virtually every industrial sector has been affected, with particularly sharp falls in basic industries (e.g. steel and chemicals), and the trend in new orders up to May does not promise an early upturn. Capacity utilisation has also fallen, reaching a record low in May 1975 (Diagrams 1, 5).

The fall in output below its potential level has been accompanied by a very severe and rapid deterioration in the labour market (Diagram 8). During the 1967 recession, unemployment never exceeded 2.8 per cent (seasonally adjusted)<sup>4</sup> of the dependent labour force, whereas it had already reached 4½ per cent in the first quarter of 1975. This represents a higher level (and a sharper rise) of unemployment than can be ascribed to cyclical movements. In fact, there are a number of additional features which appear to have exacerbated the situation.

Diagram 8 Comparison of Important Labour Market Indicators During Recent Downswings



Source: OECD Secretariat.

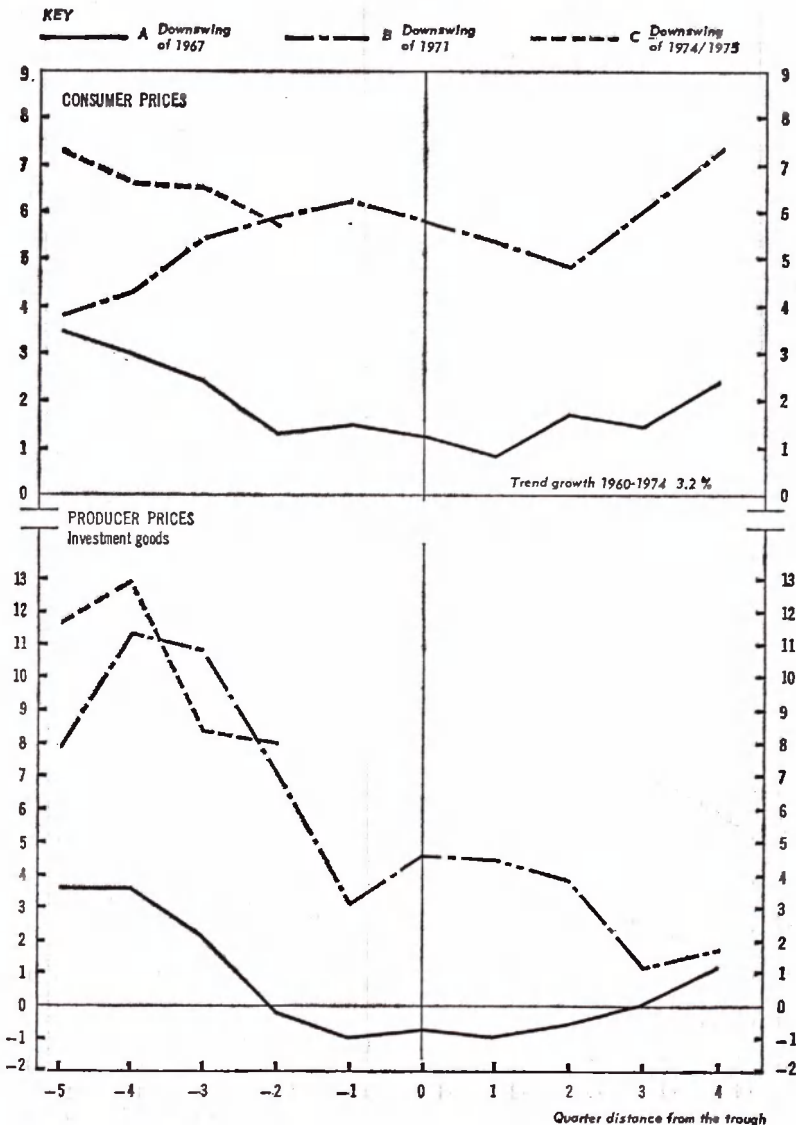
4 The figures for unemployment in Diagram 8 have been seasonally adjusted using an additive procedure. It is felt that this is more appropriate than the usual multiplicative procedure for periods of high cyclical unemployment (Cf. Part III).

Firstly, since the 1960s, the average unemployment rate has risen gradually, probably reflecting decreased labour mobility and the influence of higher unemployment compensation. However, this rise in frictional unemployment was estimated to account for only 60 000 or so of the one million currently unemployed. Secondly, in contrast to the 1967 situation, there has not so far been a massive return flow of foreign workers. The present ban on immigration from non-EEC countries seems to have the effect of "locking-in" the existing foreign labour force which may now also be more permanently integrated into German society. Thirdly, the sharp deterioration in corporate profits during 1974 undoubtedly

**Diagram 9 Comparison of Important Price Indices During Recent Downturns**

Three quarter moving averages of quarter to quarter changes at annual rates

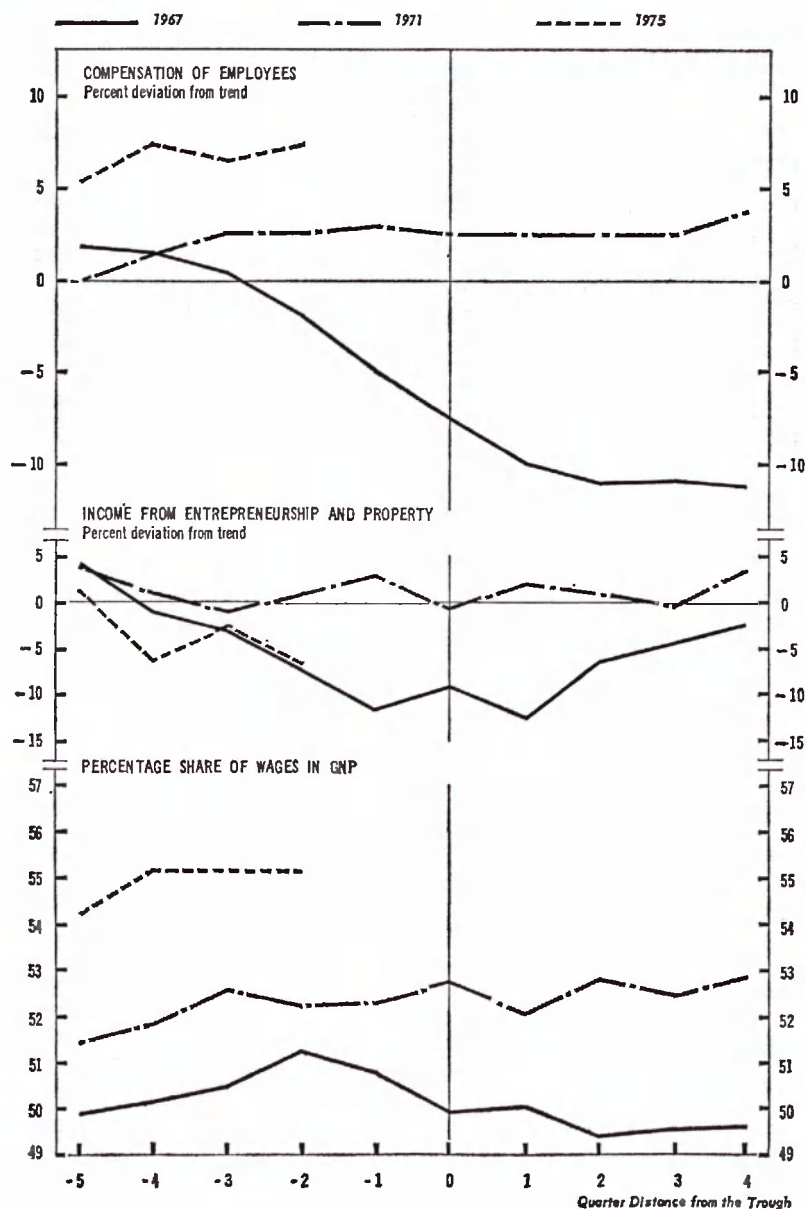
For key, see text



Source: OECD Secretariat.

contributed to an early and large shake-out of labour. Finally, the present recession has been characterised by abrupt changes in the structure of demand with a particularly marked decline of demand for new housing and automobiles. On the other hand, registered unemployment does not fully reflect the true fall in labour input. Indeed, the number of short-time workers increased much more in the present recession than in any previous downswing, exceeding in the first quarter of 1975 the 1967 peak by more than half a million.

Diagram 10 Comparison of the Functional Distribution of Income During Recent Downswings



Source: OECD Secretariat.



Despite the evident weakness of private demand and its consequent impact on the labour market, inflation rates have been higher than in past downswings. Diagram 9 shows the behaviour of major price indices during the past eighteen months and the two preceding periods of slackening activity. The 1967 recession is notable for a very marked deceleration of price increases, whereas no clear dampening impact on prices is discernible in the 1971 downswing. The present recession was preceded by a period of historically high and accelerating rates of inflation reflected in the large positive deviations of price indices from long-run trends. Throughout the downswing prices continued to rise significantly faster than was, on average, recorded over the past ten to fifteen years, and have shown only a rather moderate deceleration.

Any comparison with past downswings is, of course, severely distorted by the oil crisis and the commodity price boom which started in late 1972. These external inflationary shocks affected domestic prices during 1974 both directly and as a factor influencing expectations in the wage rounds of late 1973 and early 1974<sup>5</sup>. It is therefore difficult to say whether, in the absence of such unprecedented inflationary impulses from abroad, the wage and price behaviour in Germany would have been significantly different from that experienced during the comparable 1967 recession. At any rate, inflation rates in Germany in 1974 were markedly lower than in other industrialised countries, and even fell in the latter part of the year and in early 1975. Indeed, the peak year-on-year increase of the consumer price index, nearly 8 per cent, was registered in December 1973 before the full impact of the oil crisis was felt. Twelve months later, the year-on-year inflation rate was down to 6 per cent, a remarkable achievement both as compared with developments abroad and in view of the generally very pessimistic expectations prevailing at the beginning of the year.

Concerning the functional distribution of income (Diagram 10), it can be seen that during the 1967 recession, compensation of employees and income from entrepreneurship and property both fell steadily below trend initially, though profit incomes recovered rather sharply after the trough. During the 1971 downswing, both types of income remained slightly above trend, and showed no marked tendencies either way. During the current recession, compensation of employees has been above trend (in part reflecting the marked inflation of the recent past), whereas profit income has fallen as steeply as during the 1967 recession. Given that recent inflation has greatly reduced the real value of profit income, the current fall in real terms is clearly far more substantial than that occurring in 1967. Part of the current policy measures have been designed to reverse this relative downward plunge of income from entrepreneurship and property.

## II THE ROLE OF STABILISATION POLICIES

During the past two years the combination of rapidly growing slack, record current external surpluses, and high rates of inflation complicated the task of stabilisation policies and confronted the German authorities with difficult policy choices. The fiscal restraint introduced in the spring of 1973 was largely abolished in December 1973 in order to cushion the deflationary demand impact entailed by the oil crisis, while monetary restraint was maintained to contain price-wage

5 Deutschemark import prices in 1974 were 22½ per cent higher than in 1973, and the rise between the second half of 1973 and the first half of 1974 reached an annual rate of 30 per cent. By contrast, import prices rose by less than 1 per cent per annum between 1965 and 1967.

spiralling effects. Despite a continued sharp deterioration of the employment situation, further stimulative measures were made contingent on the exercise of wage restraint<sup>6</sup>. The marked decline of contractual wage increases during the late 1974-early 1975 wage bargaining round from previous inflationary settlements served to reduce inflationary expectations and to improve prospects for a consolidation of last year's stabilisation gains, thus clearing the way for a change in policy priorities. Consequently, fiscal policy has been shifted towards greater expansion and the restrictive posture of monetary policy has gradually been relaxed since the autumn of 1974.

#### (a) *Fiscal policy*

Although the principal discretionary change in the direction of demand-management policies towards expansion did not take place before the end of last year, fiscal policy maintained a relatively high degree of flexibility and helped to support economic activity during the difficult months following the outbreak of the oil crisis. To counteract the recessionary repercussions of the oil embargo and higher oil prices, the Government selectively relaxed the restrictive fiscal measures introduced during the first half of 1973<sup>7</sup>, and urged public authorities to accelerate their scheduled expenditure where possible. In February 1974 these supporting moves were strengthened by the adoption of a regional relief programme comprising additional public investment expenditure of DM 0.9 billion. This easing of fiscal policy was followed by an improvement in some major forward-looking indicators during the first half of 1974 and a pick-up of activity during the early months of the year. The revival of production and demand proved to be short-lived, however. The Government responded to the fall in output by advancing scheduled expenditure and by introducing additional support programmes later in the year. As a result, the public sector account for 1974 reveals a substantial expansionary shift in fiscal policy (Table 4). Though this shift can partly be attributed to built-in stabiliser effects (decline in tax receipts and increased transfer payments due to weakening activity), rough calculations suggest that an expansionary impact remains even on a "full employment budget" basis. In fact, both public consumption and public investment showed a distinct anticyclical pattern in 1974, in contrast to the pattern of earlier recessionary periods (see Part I).

Though the growth of public consumption is forecast to decelerate in 1975, the overall fiscal impact remains expansionary both on an actual and on a full-employment basis. The fiscal reform which became effective on 1st January 1975 will provide a strong stimulus to private consumption. Though not originally designed as a primarily countercyclical policy measure, the timing of the tax relief (and of the increases in transfer payments) resulting from the reform has been highly appropriate. According to official estimates, the tax reform will add about two per cent to personal disposable income in 1975 in the form of a DM 4 billion reduction in direct taxes and a DM 10 billion increase in family allowances.

Further stimulative effects will result from three additional support programmes announced and partially implemented during 1974:

##### *February*

DM 900 million investment programme for depressed areas.

6 In the Concerted Action meeting preceding the recent wage round the Government presented three alternative forecasts to the representatives of unions and employers. A salient feature of these alternatives was the negative correlation between nominal wage increases and GNP volume growth, based on specific assumptions about fiscal and monetary policy as well as investment behaviour.

7 See Annex III of last year's Economic Survey for a detailed presentation of the anti-inflation programme adopted in May 1973 and its relaxation in December of the same year.



**Table 4 Public Sector Account (National Accounts Basis)**  
Percentage change from previous year

	1973	1974		1975	
		Government target projection	Actual	Estimate <sup>1</sup>	
				Official <sup>2</sup>	Secretariat
1 Receipts, total	18.2	8-9½	8.4	5½-6½	4½
of which:					
(a) Taxes <sup>3</sup>	17.8	8-9½	7.0	3-4	2½
(b) Social security contributions <sup>4</sup>	19.4	8-9½	11.0	11-12	9½
2 Expenditure, total	13.2	12½-13½	15.2	13-14	16½
of which:					
(a) Public consumption	15.1	14-15	16.0	11½-12½	11½
(b) Public transfers	13.3	11-12	14.5	14½-15½	24
(c) Gross fixed investment	4.4	9-11	18.9	12-14	10½
3 Financial balance absolute (Bill. DM.)	15.0	(-2)-(+2)	-9.2	(-40)-(-45)	-62
Change in financial balance (as per cent of GNP)	1.7	(-1.7)-(-1.3)	2.4	(-2.9)-(-3.4)	-5

1 Adjusted for changes due to accounting methods only.

2 Official spring target projection, no revised data available.

3 1973 and 1974 including stabilisation and investment surcharges.

4 Including imputed contributions to pension funds of civil servants.

Sources: Ministry of Economics and OECD Secretariat.

### September

DM 950 million investment programme for depressed areas.

### December

DM 1 730 million support programme, of which:

- DM 1 130 million public investment expenditure,
- DM 500 million employment premium,
- DM 100 million labour mobility grants.

A temporary 7½ per cent investment bonus.

Except for the February measures, the stimulatory effects of these programmes will mainly be felt in the course of 1975. If the timing of investment expenditures resulting from the September and December packages is similar to that of the February programme, the production impact should peak early in the second half of 1975 and then subside. The rise of the net deficit caused by the three programmes is substantially lower than suggested by the actual size of the programmes because of induced increases in tax revenue and reductions in unemployment compensation<sup>8</sup>.

Among the various measures included in the December package, the impact of the temporary 7½ per cent investment bonus is particularly difficult to quantify<sup>9</sup>. In qualitative terms it can be argued that the temporary reduction in the price of capital implied by this bonus is likely to stimulate the purchases of additional capital goods and that the time profile of "autonomous" investment expenditures will probably be changed in order to draw maximum benefits from the temporary subsidy. However, the results of an econometric analysis presented in Annex III suggest that the overall volume increase in investment might be rather small<sup>10</sup>.

8 Tentative calculations suggest that implementation of the DM 3 billion additional investment expenditure programmes may not raise the budget deficit by more than DM 700 million. The net effect would be even lower, to the extent that the support programmes replace rather than add to "ordinary" budgeted investments. The net financial burden of the employment subsidies should also be rather small.

9 See Annex I for a more detailed description of the conditions applying to the investment bonus.

10 According to the estimates the increase would be about DM 2 billion, or less than 0.8 per cent of total investment in 1975 (excluding increases from changes in the time schedule of investment), and DM 0.5 billion (0.2 per cent of total investment) in 1976.

On the other hand, there may be rather important advancement as well as secondary expansionary multiplier effects. Judging by the behaviour of the order inflow since December 1974, these effects may not be felt much before the autumn of 1975, i.e. somewhat after the initial phase of the expected recovery. The expected cost of the programme is officially estimated to amount to some DM 7.8 billion, with considerable error margins in either direction attached to the estimate. The bulk of the cost of the programme will occur in fiscal 1976, and some budget burden will continue until the end of this decade and possibly beyond<sup>11</sup>.

Pulling the various strings together, tentative estimates of the overall impact of 1974 and 1975 public sector transactions on economic activity are presented in Table 5<sup>12</sup>. Given the simplifications involved in such a simulation exercise, considerable error margins attach to individual numbers which should therefore be interpreted with caution. On the other hand, the relative size of the various entries as well as their order of magnitude provides a useful basis for the evaluation of past and present fiscal policy. The estimated impact, which ignores any induced investment expenditure, seems to be justified, given the large amount of slack at present prevailing in the economy. To fully appreciate the size of the expansionary effect exerted by the public sector and represented by the numbers in Table 5, it should be noticed that in 1974 the public sector's contribution to GNP growth was in excess of the recorded 0.4 per cent overall growth. Thus GNP in 1974 would have fallen but for the impact of the expansionary policy measures. Similarly, the projected GNP fall in 1975 would be about 1½ per cent bigger if the expansionary public sector impact was eliminated.

#### (b) Monetary policy

The assessment of monetary policy is greatly affected by two significant changes occurring at the beginning of the 1970s. First, contrary to previous

Table 5 Net Effect of the Public Sector on Economic Activity<sup>1</sup>  
Increase in aggregate demand

	1974		1975	
	DM bill.	per cent of GNP	DM bill.	per cent of GNP
Indicator I				
Primary effect				
Nominal	29.9	3.0	24.9	2.4
Volume <sup>2</sup>	5.0	0.8	2.9	0.5
Secondary effects <sup>3</sup>				
Nominal	4.7	0.5	13.2	1.3
Volume <sup>2</sup>	3.0	0.5	7.9	1.4
Total effect				
Nominal	34.6	3.5	38.1	3.6
Volume <sup>2</sup>	8.0	1.3	10.8	1.8
Public sector financial balance	-9.2	0.9	-62.0	5.9

1 Explanatory note: The primary effect measures the annual increase in public sector expenditure on domestic goods and services. The secondary effect measures the consumption expenditure (on domestic goods) induced by increased household income through the primary effect as well as from changes in taxes and the subsequent multiplier effects. Repercussions on prices and investment behaviour (including those from the temporary 7½ per cent investment credit) are ignored. For a detailed explanation of the methodology used see the 1973 OECD Survey on Germany (Paris, 1973), Annex I.

2 In constant 1962 prices.

3 Including lagged effects of previous year budgets.

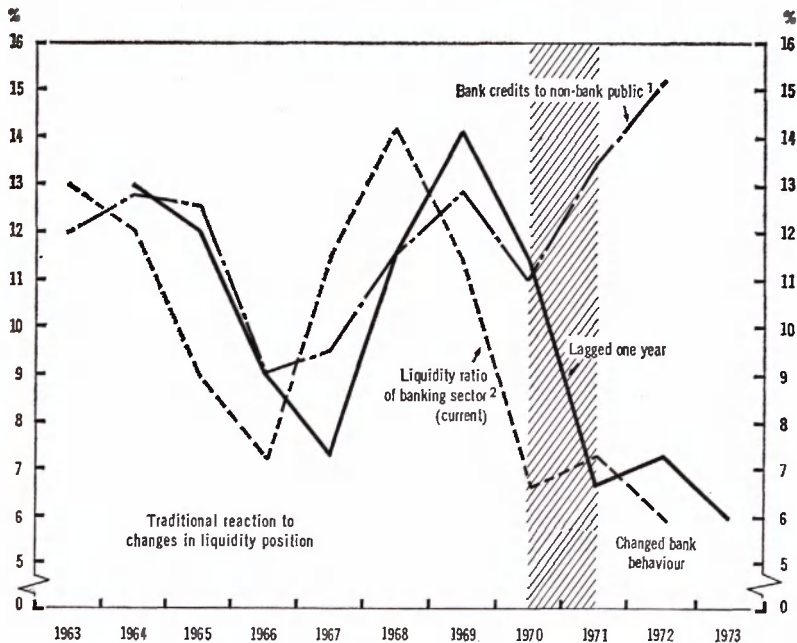
Source: OECD Secretariat.

11 This is due to the fact that the bonus for energy investment projects is permanent rather than temporary.

12 The methodology used in these simulations is described in Annex I of the 1973 OECD Survey on Germany (indicator I, "Basic model").

behaviour, banks have ceased to maintain minimum levels of "free liquid reserves"<sup>13</sup> in stable proportion to their deposits (Diagram 11). This has forced the Bundesbank to abandon "free liquid reserves" as the major operating target of monetary management<sup>14</sup>. The aggregate which since 1973 has replaced "free liquid reserves" as the principal operating target is the "Central Bank Money Stock"<sup>15</sup>. The second important event was the transition to a "managed" floating exchange rate system in March 1973. This institutional change has enabled the Bundesbank to pursue its policy targets without being severely constrained by an uncontrollable build-up of official exchange reserves and its impact on domestic liquidity.

Diagram 11 Bank Liquidity and Credit Expansion



1 Annual growth rates of bank lending including purchase of securities.

2 Free liquid reserves, i.e. domestic money market paper, unused re-discount quotas, money market investments abroad, excess reserves net of Lombard credits, in per cent of deposits, annual averages.

Source: Deutsche Bundesbank, annual report 1972.

According to a policy approach co-ordinated between the Federal Government and the Bundesbank, fiscal policy assumed an expansionary stance, while monetary policy remained tight. An historically high discount rate level (7 per cent) prevailed for an unprecedentedly long period of 16 months until October 1974 (Diagram 12). Short-term bank lending rates increased rapidly, in step with the discount rate, until the fourth quarter of 1973 but then declined continuously. Weakening credit demand by private business—reflecting the deceleration in

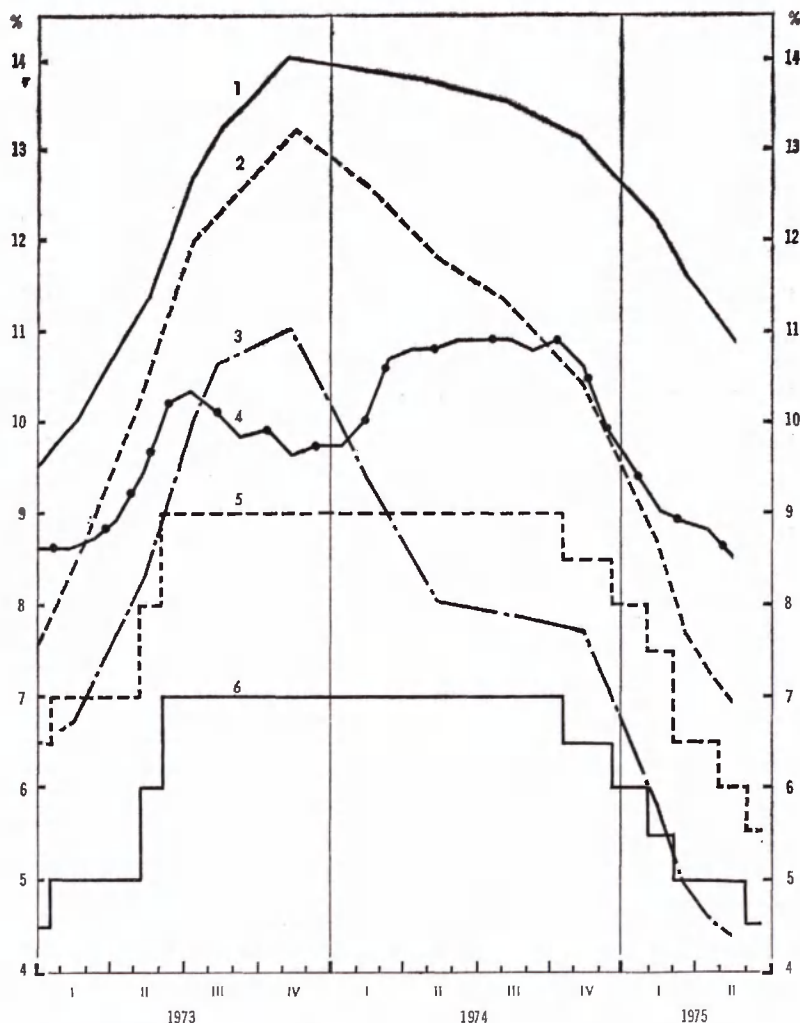
13 "Free liquid reserves" comprise excess reserves with the Central Bank, unutilised rediscount quotas, and a variety of short-term claims readily convertible into Central Bank money.

14 For a detailed description of bank liquidity as an operating target of monetary policy see OECD (monetary studies series), *Monetary Policy in Germany*, 1973, *passim*.

15 For an explanation and comparison of the two alternative concepts of the Central Bank Money Stock at present used in Germany see Annex II of this Survey.

economic activity—and less rigorous control of Central Bank credit<sup>16</sup> were the main reasons for falling short-term credit costs. Long-term bond rates went up steadily until the middle of 1974, influenced by temporarily enhanced inflationary

Diagram 12 Movement of selected interest rates



1 Rate on overdrafts up to DM 1 mill.

2 Discount credits.

3 Three month time deposits.

4 Long Term Bond Rate.

5 Lombard rate (Note: between June 1 1973 and July 3 1974; Lombard credit at the Lombard; rate was not generally available to banks).

6 Central bank discount rate.

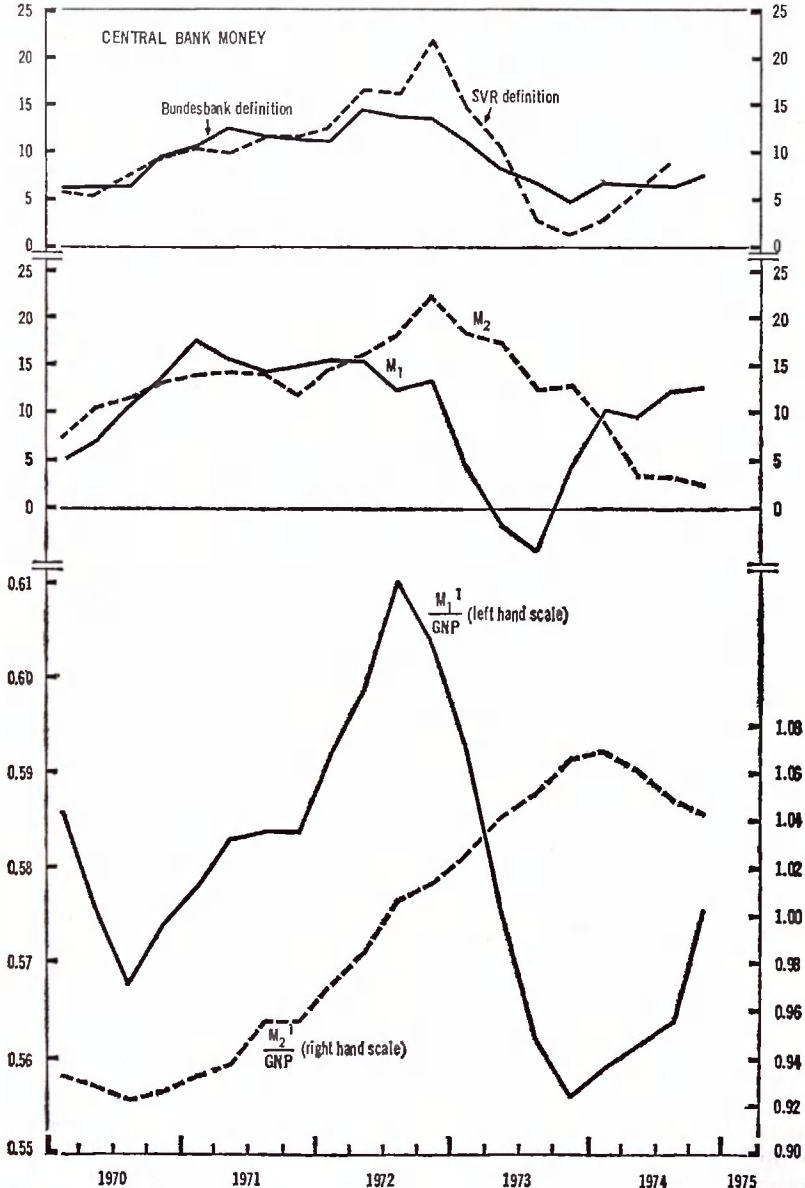
Source: Deutsche Bundesbank.

16 Starting in late 1973 the Bundesbank significantly lowered the rates for its temporary open market operations in the money market from the high levels prevailing during the second half of 1973, without, on balance, increasing its holdings of open market paper until the middle of last year. In July 1974 the Bank suspended its embargo on Lombard credits and lent heavily to the banking sector to counteract the liquidity effects (increase in currency in circulation and outflow of foreign exchange) resulting from a loss of confidence due to a major bank failure.



expectations<sup>17</sup>. The behaviour of monetary aggregates also suggests a continuation of tight monetary policies through most of 1974. Except for M1, average growth rates of all aggregates fell below the nominal rate of GNP growth after a sharp deceleration in the preceding year (Diagram 13).

**Diagram 13 Growth Rates of Monetary Aggregates and Liquidity Ratios**  
Percentage changes against previous quarter, smoothed, seasonally adjusted, annual rates



1 Seasonally adjusted smoothed level.

Sources: Deutsche Bundesbank, Sachverständigenrat.

17 In early 1974 the anticipated inflation rate was about 10 per cent, and bond prices came under downward pressure when excessive public sector wage settlements became known.

Although knowledge is limited concerning causal links and lag structures with which monetary variables exert their influence on the real side of the economy, there can be little doubt that the tight monetary policy not only contributed to halt the incipient boom building up in early 1973, but also was crucial in braking the inflationary price-wage spiral. The co-ordinated stabilisation policy approach implied continued monetary restraint accompanying the gradual fiscal relaxation which started in December 1973. This may well have discouraged business from temporarily bridging financing gaps originating from higher raw material (primarily oil) and wage costs until these could be passed on to final users. But with demand unexpectedly weak, these increased costs could not be passed on, and a severe profit squeeze resulted, with detrimental effects on investment plans, stockbuilding and employment<sup>18</sup>.

A quantitative guideline for monetary management during the current year was determined last December when the Bundesbank announced its target of 8 per cent growth in the central bank money stock in the course of 1975. The advance specification of this target was intended to inform employers and employees alike of the monetary ground rules which would prevail during the following year. An important assumption underlying this policy approach is that, due to the unknown and probably ever-changing lags in the transmission mechanism of monetary policy, optimal stabilisation results can best be achieved by ensuring steady growth in money volume.

Given the lower rate of growth of the central bank money stock during 1974 and the anticipated nominal growth of GNP in 1975, the 8 per cent target is generally interpreted as an expansionary stance of monetary policy. In line with its quantitative target, the Bundesbank started relaxing credit conditions in the third quarter of last year to permit the desired more rapid growth of the money base. Measures taken include a gradual lowering of the discount and Lombard rates, now standing at 4½ and 5½ per cent respectively; two consecutive decreases in minimum reserve requirements; raising of rediscount quotas; repeated intervention in the exchange markets; and a switch from a net seller to a net purchaser position in the open market. As a result market interest rates have declined sharply, the growth of monetary aggregates has picked up and banks were able to increase their free liquid reserves substantially around the turn of the year. More recently (April-May 1975), however, the growth of monetary aggregates has slowed down considerably, while banks' free liquid reserves have reached their highest level since February 1973, reflecting an unexpected retardation of the anticipated recovery. If this tendency continues, further expansionary monetary policy measures may be required in order to keep the growth of the central bank money stock on target. On the other hand, the large credit demand of the public sector will require a judicious choice of financing instruments (long-term - short-term, bank - non-bank credit), as well as timing of credit demand to maintain consistency between the monetary growth and the desired level and term structure of interest rates.

The *ex ante* announcement of the monetary authorities' intentions at which rate to increase the central bank money stock in the future can be regarded as an important element of the Bundesbank's stabilisation policy. Assuming the correctness of the underlying assumptions, the envisaged rate of monetary growth will constrain the rate of growth of nominal GNP. What combination of volume growth and inflation is to coincide with policy-determined nominal growth will be determined by the wage and price behaviour of employers and unions. Historical data show that the implicitly assumed proportionality of growth in nominal GNP and the money base was rather loose in the past (see Annex II).

18 Compare Annex III for a quantitative estimate of the impact of profits and real interest rates on business investment.

Judging by earlier experience, the GNP velocity of money is particularly unstable during recovery periods. It may be argued, however, that with increased control over external influences on monetary growth under floating exchange rates, growth of monetary aggregates and nominal GNP may now exhibit a more stable relationship.

### III SHORT-TERM PROSPECTS

The slowdown of activity in Germany, starting in mid-1973, preceded that of the OECD area as a whole, reflecting restrictive measures taken at a relatively early stage of the boom. In keeping with her position of cyclical leadership Germany shifted towards an expansionary policy stance earlier than most Member countries; fiscal policy is strongly demand-supporting and monetary conditions have eased markedly with a rapid decline in interest rates. The 8 per cent increase in the central bank money stock aimed at by the monetary authorities this year should be conducive to an upturn in domestic demand.

But considerable uncertainty prevails with regard to the strength and the timing of the recovery, a main feature being that exports, typically a leader of upturns in Germany, have declined markedly in the recent past and are likely to remain weak. This means that the usual sequence of an acceleration in exports, then investment, then consumption, will have to be reversed. Government expenditure on goods and services and private consumption will have to be the main leading dynamic elements. In view of the German economy's heavy dependence on exports, the upturn in activity may therefore be much weaker than, for example, the 1967/68 recovery.

Against this background the latest official forecast (May 1975) of zero growth for real GNP between 1974 and 1975 appears optimistic (Table 6). It was based on the triple assumption of a halt in the decline of export volumes, a fall in the abnormally high household savings ratio, and a reversal of the downward trend of business fixed investment not later than the middle of the year. Failure of any one of these three conditions to materialise would pull the GNP growth

Table 6 Official Target Projections and Forecasts  
Percentage change from previous year

		1974		1975
		Target projection	Actual	Forecast
Private consumption	nominal	8½-9½	7.5	9
	volume	0-1	0.2	3
Public consumption	nominal	14-15	16.0	10½
	volume	..	4.4	2½
Fixed investment	nominal	4-6	-1.7	3
	volume	..	-7.9	-2½
Stockbuilding (DM bill.)	nominal	3-6	1.3	5
	volume	..	1.0	3½
Foreign balance (DM bill.)	nominal	15-20	38.3	34
	volume	..	..	21
GNP	nominal	6½-8½	7.0	7½
	volume	0-2	0.4	0
Employment		(-1)-(-2)	-1.7	-2½

Source: Bundeswirtschaftsministerium.



rate for 1975 into the negative range. Given the significant drop of output during the last quarter of 1974 and the first quarter of 1975, the official forecast implied already some recovery during the second quarter of this year, followed by an acceleration to above-capacity growth in the second half. A postponement of the expected turning point by only a few months would likewise pull further down expected GNP growth<sup>19</sup>.

The Secretariat's forecast discussed in the following paragraphs is less optimistic, a main point being that lack of export buoyancy may exert a pervasive deflationary influence unlikely to be fully offset by the policy measures taken so far. The expansion is not expected to be sufficiently strong to take up much slack. As at the time of writing the economy was still in a rather sluggish mood, the present forecast is based on what should plausibly happen in response to expansionary policy measures taken so far rather than on hard evidence from forward-looking indicators. There is a distinct danger, however, that further delay in this response may cause continued contraction of business investment. In this context it is important to note that, despite record-low levels of capacity utilisation, the level of net investment is still positive.

### Private consumption

Private consumption is likely to constitute the most important expansionary factor during the forecast period. A strong expansionary measure has been taken in the form of the income tax reform effective on 1st January, 1975. This will add about 2 per cent to disposable income in the form of increased family allowances (DM 10 billion) and tax reliefs (DM 4 billion). With wages at the

Table 7 Demand and Output<sup>a</sup>Prospects

Percentage changes, volume. Seasonally adjusted at annual rates, actual values and forecasts

	1973 Current prices DM. bill	From previous year			From previous half year				
		1973	1974	1975	1974		1975		1976
					I	II	I	II	
Private consumption	496.8	2.9	0.2	2½	1.0	1.6	3	3½	3
Public consumption	168.6	4.0	4.4	2½	4.0	4.5	1½	2½	2½
Fixed investment	230.0	1.1	-7.9	-4½	-9.0	-6.3	-7½	1½	2½
Final domestic demand	895.4	2.6	-1.4	½	-1.3	-0.1	½	2½	2½
Change in stockbuilding*	9.6 <sup>1</sup>	0.7	-1.2	-½	-3.9	1.8	-2½	1½	1½
Total domestic demand	905.0	3.3	-2.6	½	-5.2	1.9	-2	4	4½
Exports of goods and services <sup>2</sup>	226.2	16.2	13.4	-7	24.5	-3.7	-13	2½	6½
Imports of goods and services <sup>2</sup>	200.8	9.8	4.9	-½	6.3	7.2	-7½	6	7½
Change in foreign balance**	25.3 <sup>1</sup>	2.0	2.9	-2½	6.0	-3.6	-2½	-1	0
GNP at market prices	930.3	5.3	0.4	-2	0.9	-1.7	-4½	3	4
GNP price deflator	..	5.9	6.6	7½	5.1	10.8	6½	6	6
Consumer prices	..	7.0	7.3	6	7.6	6.5	6	5½	5½

\* The rates of change refer to changes in stockbuilding and in the foreign balance expressed as a percentage of GNP in the previous period.

<sup>1</sup> Actual level of stockbuilding and foreign balance.

<sup>2</sup> The figures for 1974 and 1975 are affected by statistical distortions due to changes in methodology in 1974.

Source: OECD Secretariat.

19 The annual growth rate of GNP, which is highly sensitive to the timing of the turning point, should not be given too much importance. The more relevant questions are when the lower turning point of the present business cycle will be reached, whether the upswing will be vigorous enough to take up slack and whether it will be sustainable in the future.

beginning of the year exceeding the 1974 average by almost three per cent and recent pace-setting settlements providing for increases of close to 7 per cent, contractual hourly wages will probably show a rise of some 10 per cent between 1974 and 1975. Effective earnings may advance at a somewhat slower rate as a result of shorter working hours and some negative wagedrift, and the increase in the wage bill will probably be reduced by a further decline in employment. On the other hand, transfer payments (excluding changes in the family allowance scheme) may rise by close to 15 per cent. Given the marked deceleration of wages and import prices, the rise in consumer prices may be kept down to close to 6 per cent between 1974 and 1975. Any slowdown during the year will probably be limited, as profit margins, at present heavily squeezed, can be expected to recover, a process which will be helped by improving productivity gains once the upswing gets under way. With wage settlements unlikely to be much higher than 6 per cent during the next bargaining round and some turnaround in the employment situation, private consumption should remain a source of buoyancy in 1976; it may even strengthen if the present prevailing uncertainty about the viability of the expected upswing disappears.

The development of the personal saving ratio, which reached a record level of close to 17 per cent in the first quarter of this year—well above the 13-14 per cent rate prevailing in recent years—is uncertain. The increase registered since last year was probably strongly influenced by the rise in unemployment and growing uncertainty about economic prospects. If, as implied in the forecast, the lower turning point in activity is reached around mid-1975, a gradual decline in the saving ratio is expected to take place, continuing into 1976<sup>20</sup>. Since unemployment is, however, not likely to decline significantly before the spring of 1976, the household saving ratio—though declining—may remain markedly above its trend level.

On these assumptions, real consumer spending should accelerate in 1975. The projected increase of 2 $\frac{3}{4}$  per cent shown in Table 7, with a slightly faster increase in the course of the year, allows for demand losses resulting from the expected net outflow of about 250 000 foreign workers and their families but is otherwise based on the assumption of a moderate recovery of activity getting underway in mid-1975 but not causing a renewal of inflationary pressures. The uncertainties attaching to the consumption forecast are, however, great. The stimulating effect of the tax reform could well remain moderate due to continuing employment uncertainty causing saving rates to remain high. On the other hand, the fall of household savings towards their trend rate could be more rapid than at present foreseen, especially if consumer confidence improved.

### *Private investment*

Given an estimated medium-term dwelling demand of about 450 000 units per year and the existing stock of approximately 300 000 vacant flats, there would seem little prospect of a reversal of the downward trend in residential construction. The decline may level out by the middle of next year influenced by the fall in long-term interest rates. The construction of one-family houses may, however, pick up slightly while apartment block building will probably remain depressed for some time. This forecast is based on the present mixed evidence of the continuing low levels of new building permits and a significant increase in mortgage credit commitments (Table 8).

20 The assumed gradual decline in the savings rate is based on the econometric analysis of consumption behaviour discussed in Annex III. It is mainly due to the decreasing income uncertainty in the course of 1975 represented by a halt in the increase of unemployment in the course of the year.

**Table 8 Forward Indicators of Residential Construction**  
Indices, 1970 = 100

	1972	1973	1974	1974					1975		
				Q1	Q2	Q3	Q4	Dec.	Jan.	Feb.	Mar.
Housing construction permits											
Volume (cubic meters)	129	114	78	76	82	80	74	79	73	71	72
Value (DM)	162	157	118	114	123	122	114	122	113	113	115
Mortgage credits											
Commitments (DM)	168	150	144	138	137	141	159	187	129	157	161
Payments (DM)	150	173	156	159	161	149	156	161	150	153	164

Source: Bundesbank, Statistische Beihefte, Reihe 4, 1975: 5, Tables 17, 18, 20.

In view of the weak export outlook and the present large margin of unused productive capacity, 1975 is unlikely to see a marked turnaround of the decline in business fixed investment. The latest medium-term investment survey for manufacturing industry conducted in November/December 1974 confirmed the impression of continued hesitancy on the part of investors (Table 9). A more recent short-term investment test (IFO, March 1975) points to a further downward revision of investment plans in manufacturing industries, suggesting stagnation of nominal investment expenditure in 1975, which in turn implies a volume decrease of about 5 per cent. However, a rise in business fixed investment could take place in the course of the year, mainly in response to the temporary 7½ per cent investment bonus, but also influenced by some improvement in profit and credit conditions. The recent behaviour of domestic orders for machinery and equipment is consistent with this forecast. It should be noted, however, that this improvement of the demand situation may prove to be short-lived as enterprises will tend to place orders in advance to draw maximum benefits from the investment subsidy.

The outlook for inventory formation, a residual item in the national accounts, is especially uncertain since it is not clear what has happened in the recent past. Assuming that the latest revision to the national accounts for the second half of last year is not too far off the mark, it is reasonable to assume that the build-up that seems to have taken place in that period was to a large extent involuntary since it was accompanied by declining industrial production and a virtually flat trend of nominal sales by both industry and trade. In view of the further marked

**Table 9 Key Planning Targets of Manufacturing Industry<sup>1</sup>**  
Percentage Growth Rates, Year-on-Year

	1974 1973	1975 1974	1976 1975
Sales, total <sup>2</sup>	12	7	10
Domestic	8	7	10
Exports <sup>2</sup>	25	8	9
Employment	-3	-3	1
Gross Fixed Investment <sup>2</sup>	2	5	10

<sup>1</sup> Results of November/December 1974 sample survey.

<sup>2</sup> In value terms.

Sources: Ifo Prognose 100-9, Ifo Schelldienst 1975:7, page 5.



decline in output in the first quarter, the Secretariat forecast is therefore based on the assumption that the first half of 1975 will see a substantial downward adjustment of the inventory/sales ratio and that the subsequent recovery of stockbuilding as activity picks up will be less pronounced than typical during the early stage of a business upswing. According to the latest business survey, the number of firms in manufacturing considering their level of inventories as excessively high has grown rapidly and there is also a large majority of enterprises in the retail and wholesale trade which assess their stocks of unsold goods as "too big" (Table 10). It is to be noted that the official 1975 outlook embodies a much stronger recovery of inventory formation, and this accounts for about  $\frac{3}{4}$  a percentage point of the difference between the official and the Secretariat's GNP growth forecasts.

Table 10 Stockbuilding and Business Inventory Evaluation

	1973				1974				1975	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	April
Inventory evaluation <sup>1</sup>										
Retail trade	+18	+20	+28	+28	+30	+23	+24	+22	+19	+23
Wholesale trade	+9	+11	+17	+12	+18	+18	+21	+18	+22	+21
Manufacturing industries	-1	-6	-2	+8	+11	+13	+22	+37	+39	+40
Actual stockbuilding, DM billion (nominal, seasonally adjusted)	2.2	1.6	3.2	2.8	-0.5	-0.3	2.7	-0.5	0.7	..

1 Difference of percentage of enterprises indicating too big (+) and too small (-) inventories; quarterly figures compiled from monthly data.

Sources: IFO Business Climate Test, "Wirtschaftskonjunktur", 1975: 5, *passim*. Bundesbank, Statistische Beihefte, Reihe 4, 1975: 5, Table 1.

### Foreign balance

The real foreign balance is likely to make a negative contribution to the evolution of GNP in 1975, following two years of a strongly positive impact. While imports should follow the trend of domestic demand, recovering as and when the upswing materialises, the volume of exports is likely to remain depressed. According to Secretariat estimates, German markets abroad in volume terms expanded by 7 per cent between 1973 and 1974. This increase was concentrated mainly in the first half of 1974, and markets are forecast to contract by 4 per cent in 1975. Actual exports may shrink even more than this, as substantial market share erosion can be expected to occur following the big increases in recent years.

The effects of the forecast deterioration in real merchandise trade on the current balance is likely to be exacerbated by unfavourable developments in other items. German tourism abroad seems set to rise strongly this year, judging by advance bookings and actual expenditure so far. Also, contributions to the European Economic Community budget are due to increase. Together, these two items could add DM 3 billion to the foreign expenditure bill. However, these developments should be partially offset by stronger terms of trade. Indeed, current and forward-looking indicators suggest that import prices are likely to slow down much more than export prices, a tendency already manifest in the latter part of 1974 and early 1975. The appreciation of the Deutschmark and stagnating or declining raw material prices have been the main factors behind this development. All in all a current balance surplus of around \$8 billion can be expected in 1975, compared with the record \$9.3 billion surplus of 1974. On the assumptions adopted in the present forecast, some further decline in current surplus could take place in the first half of 1976.

**Table 11 Growth of German Export Markets**  
 Percentage changes, seasonally adjusted volume figures, at annual rates

	Percentage share in German exports in 1973	1973	1974	1975 <sup>1</sup>	1974		1975 <sup>1</sup>		1976 <sup>1</sup>
					I	II	I	II	I
Growth of total imports of:									
France	13	13.7	4.4	-6	10.5	-8.6	11½	9½	7½
Netherlands	10	12.7	-3.7	-1½	10.4	2.5	-5½	2½	7
Belgium-Luxembourg	8	16.0	3.7	-1½	3.0	-6.9	-2½	5½	6½
Italy	8	12.0	-4.6	-11½	-12.9	-8.3	-21	6	4
United States	8	5.3	-2.8	-10	-4.0	0.6	-22	8	9
Austria	5	10.7	4.3	½	9.2	-7.4	3	3½	3
United Kingdom	5	14.9	0.5	-8½	-3.8	-3.7	-15½	3	3½
Total OECD	79	12.6	0.5	-6	-1.5	-2.8	-13	7	7½
Eastern Europe (incl. USSR) <sup>2 3</sup>	6	32.5	16.7	4½	7.8	30.5	..	..	..
OPEC <sup>3</sup>	3	17.0	41.3	42	39.9	76.6	34½	28	20
German Export Markets <sup>4</sup>	100	14.5	7.0	-4					5½
German Exports		16.3	12.4	-6½	18.8	-1.9	-13	2½	6½

1 Forecasts.

2 Imports from OECD countries only.

3 Secretariat estimate.

4 Growth which would occur in German exports if Germany maintained its share in total OECD exports to each of 19 geographical markets.

Source: OECD Secretariat.

### *Production and labour market trends*

In the light of the expansionary policy stance outlined above, activity should pick up around the third quarter of the present year but, for the reasons discussed above, the expansion is unlikely to be very strong. Some acceleration seems likely, however, as the depressive influence of inventory adjustments disappears or is reversed, and as the impact of recent stimulative policy measures is building up. But even during the latter part of the forecast period the expansion may not be much stronger than the current rate of capacity increase which is officially estimated at around 3 per cent. A large margin of slack may therefore remain throughout the forecast period.

Assuming a stable historical relationship between GNP and labour productivity growth, the development of output forecast for 1975 would imply a reduction in total demand for labour of 3½ per cent, or the equivalent of about 920 000 fully employed persons. On the supply side, and neglecting migration, predictable demographic changes combined with trends in participation rates for the various age groups by sex would normally imply an increase of about 100 000 in the total labour force in 1975. However, previous experience shows that participation rates fall during a downswing, especially among women and youths. By applying a slightly larger percentage fall in participation rates than occurred in 1967 for each age group by sex, the decline of the labour force (again disregarding migration) would be of the order of about 100 000.

Reduction of the foreign labour force will probably cushion the impact of lower labour demand on unemployment<sup>21</sup>. During the present downswing, the most likely outcome appears to be a modified repetition of the behaviour observed in 1967<sup>22</sup>. Administrative restrictions on the recruitment of foreign workers were

21 Net migration of economically active German citizens is insignificant and can therefore be ignored.

22 During 1967, the number of employed foreign workers fell by 230 000 or nearly 20 per cent. Immigration of economically active foreigners fell sharply from 503 000 in 1966 to 224 000 in 1967, while emigration, perhaps surprisingly, also fell, but only from 443 000 to 413 000.

instituted in November 1973; immigration immediately dropped to half the previous levels, and further substantial reductions are unlikely unless further administrative barriers are imposed. In line with past experience little change (probably a small increase) in the volume of emigration of foreign workers can be expected for 1975<sup>23</sup>. This means that the average foreign labour force could decrease by about 250 000 between 1974 and 1975<sup>24</sup>. If this figure is approximately realised, the average unemployment level for 1975 would approach 1.1 million or close to 5 per cent of the dependent labour force<sup>25</sup>, as compared with less than 600 000 in 1974. Only a small fall can be expected later in 1975 from the high levels (seasonally adjusted) reached at mid-year. This fall should continue into the first half of 1976, but unemployment would still average above 900 000 during the early months of that year. The number of short-time workers is likely to remain high by past standards, but some fall can be expected later in the forecast period when the expected upswing gets under way.

#### IV CONCLUSIONS

The price performance of Germany over the past twelve to eighteen months has been much better than generally experienced elsewhere. The rise in the consumer price index between 1973 and 1974 was the lowest of all Member countries and, uniquely in the OECD area, showed no significant acceleration after the outbreak of the oil crisis. This rather impressive accomplishment can at least in part be explained by the weaker domestic demand prevailing in Germany than generally abroad and favourable effects of the appreciation of the Deutsche-mark. During 1974, price stabilisation gains were associated with stagnating profits in value terms. A further consolidation of the price situation in 1975 should result from the considerable wage restraint exercised during the recent bargaining round, and price developments up to June confirm this expectation.

On the other hand, losses in output and under-utilisation of resources have been higher than in any previous post-war business slowdown. Real GNP declined in the course of 1974 and industrial production in the first five months of this year was below the level already attained three years ago. The rate of unemployment has quadrupled since the first quarter of 1973 and the number of short-

23 The overall outcome for 1975 will, of course, depend crucially on the trends in emigration and immigration, which are very difficult to predict with any semblance of accuracy. On past trends an immigration of about 200 000 persons (around 8 per cent of the existing foreign labour force) seems a reasonable estimate. (This figure is 10 per cent lower than that of 1967, when the foreign labour force was much smaller; during 1967, immigration represented 20 per cent of the then foreign labour force.) Immigration from common market countries currently accounts for nearly half the total and is not affected by the hiring restrictions. As far as emigration is concerned the volume is likely to increase over that of 1974 but not by very much. With labour markets weak virtually everywhere in the world, and unemployment benefits higher in Germany than elsewhere, there is little economic incentive for foreign workers to leave the country as long as they are employed. At present, there are approximately 170 000 unemployed foreign workers. If it is assumed that half of these return home during 1975 in addition to those who, on the basis of past experience, would have left "anyway" (say 350 000, the average of the past four years), the gross outflow would be 435 000.

24 This figure is very much an estimate. The upper limit would be at most half a million representing zero immigration and a record level of emigration equal to the "normal" rate plus all the currently unemployed foreign workers. A lower limit would be 150 000, based on immigration levels established since the hiring restrictions commenced in 1973, and "normal" emigration levels.

25 Actual unemployment figures will depend on how the excess supply of labour is distributed between jobless and short-time workers. The unemployment forecast quoted above implies an annual average of somewhat less than 700 000 short-time workers, assuming that in the initial phase of the recovery short-time work will be reduced before enterprises start increasing the labour force.



time workers has reached an all time high, despite a significant net outflow of foreign labour. The volume of gross business fixed investment in 1974 fell below its 1970 level, thus limiting future output and productivity growth. Excessive demand growth in some other countries—coinciding with domestic demand restraint—led to a dramatic rise of Germany's current external surplus, a major element of the existing balance of payments disequilibrium within the OECD area, even though offsetting capital outflows caused some decrease in official reserves in 1974.

Against this background the expansionary shift of demand management policies effected since last autumn seems very appropriate. The Government initially aimed at a 2 per cent growth of real GNP between 1974 and 1975 implying a fairly strong upturn through the year. In view of the unexpected weakness of foreign demand and the sluggish response of domestic expenditure to the fiscal stimulus, the 2 per cent target—and even the zero growth forecast of May—proved to be increasingly unrealistic. Although, as noted, it seems reasonable to expect some recovery of activity in the second half of the year, it is virtually impossible to prevent a fall in real GNP in 1975 as a whole, given the sharp decline that took place in the first half. Failure to induce a timely and sustainable upswing and to maintain a reasonable degree of price stability could have unfavourable consequences for the credibility of the present stabilisation strategy.

- (a) The Government successfully convinced the trade unions that lower wage claims were a pre-requisite for a recovery of activity, arguing that wage restraint would permit more expansionary policies and that the combination of reduced cost pressures and demand stimulus would result in higher profits and a revival of business fixed investment. This approach would be discredited, and Government stabilisation efforts could suffer lasting damage, if a further deterioration in the labour market were not counteracted.
- (b) Realisation of the price objective is also important, particularly for the wage climate. Present trends suggest that the price objective should broadly be attainable especially if activity recovers in a steady and controlled way. The shift to a more expansionary policy could facilitate the passing on to prices of earlier cost increases. But this is likely to be offset by more rapid productivity increases associated with an upswing. This would permit both some easing of the profit squeeze and provide room for real wage increases.
- (c) A significantly weaker recovery than envisaged by the authorities could well complicate the task of future price stabilisation policies. A continued fall in business net fixed asset formation would reduce the future supply potential of the economy, and a further deterioration of labour market conditions could result in unacceptably high social and economic costs, producing pressures for strong reflationary measures. Such a development would entail greater instability and a risk of rekindling inflationary pressures later on.
- (d) In view of the present depressed state of the world economy, and countries with large external deficits and high rates of inflation being unable to relax demand restraints, it is essential that major countries in stronger positions should take the lead in the re-expansion of activity. Differential demand management would also reduce the existing balance-of-payments imbalances within the OECD area since growth of domestic demand in Germany, and other countries in a similar position, would in part be met with higher imports.

In view of the uncertainties necessarily involved in short-term forecasting, it is impossible to be very confident that an early and strong upswing will develop.



The Secretariat's forecast suggests that the main risk is on the side of a weaker recovery. Given the marked weakness of foreign demand and the so far limited response of private domestic demand to the reflationary measures taken, the Bundesbank has continued its policy of active monetary stimulation. Given the lags with which expansionary measures may take effect, the authorities have hesitated to take additional steps, but, at the time of writing, a re-examination of the stance of demand management policies was under active consideration. Fortunately, policy-making arrangements have been much improved in Germany since the 1967 recession, and the authorities are now better placed to act more quickly than many other Member governments, notably on the fiscal side.

Possible additional fiscal stimulus would necessarily increase the budget deficit, at least in an initial period, but this should not be a matter of major concern.

- (a) The combination of growing slack and large external surplus on goods and services is a reflection of the fact that private savings propensity has tended to exceed the private propensity to invest in real domestic assets. Provided that there is no danger of rekindling inflation, it is an essential role of budget policy in such circumstances to close this gap through public spending or encouragement of private demand. It may be desirable, however, for any additional fiscal measures to stimulate activity to be easily reversible so as to maintain a high degree of flexibility of demand management policies.
- (b) A large part of the deficit likely to be incurred this year will result from the fact that the level of economic activity has fallen significantly below its potential rate, entailing lower tax revenues and higher public expenditure on transfers, especially unemployment benefits. This part of the deficit will automatically diminish and disappear as the economy picks up. Thus, fiscal policy measures sparking off a recovery of activity would, in the longer run, help to reduce the deficit rather than increase it.

Apart from concern about the size of the budget deficit, it is often argued that "deficit spending" would create too much liquidity in the hands of the private sector, including the banks, and that this excess liquidity could entail problems of monetary management at a later stage. This involves examination of general debt management and monetary policy. But even if deficits were financed by government borrowing from the Central Bank or by drawing on reserve deposits with the Central Bank—the most "expansionary" ways of financing—it is difficult to see why it should not be possible to absorb any excess liquidity thus created, via open market operations or higher reserve requirements for example, at a later stage, as the economy is recovering and the need for policy stimulus disappears or could be replaced by restraint.

The exercise of monetary restraint between spring 1973 and autumn 1974 has certainly played an important role in moderating wage and price claims and in breaking inflationary expectations. For 1975 the stated policy target of the Bundesbank is an 8 per cent growth of the Central Bank money stock. This implies an expansionary stance of monetary policy relative both to the rate of expansion of the monetary base last year and to the expected real growth and price developments in 1975. Until there are clear indications that the upswing is finally established it is important that the envisaged strict control over the stock of Central Bank money does not lead to undesirable movements in interest rates and the exchange rate. Thus, as long as knowledge of the transmission mechanism of monetary policy via monetary aggregates to the real side of the economy is as limited as it is, it is very important to maintain a high degree of flexibility in monetary management. Fortunately, the introduction of the present "managed" floating system has rendered the task of controlling the expansion of credit and money supply much easier than during earlier business cycles.

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## *Annex I*

### CHRONOLOGY OF MAIN ECONOMIC POLICY MEASURES

**1974**

*11th January*

Central Bank Council announces:

- abolition of 60 per cent minimum reserve requirements on net new foreign liabilities and 5 percentage point reduction on existing foreign liabilities, effective 1st January. New levels are 35, 30 and 25 per cent for sight, time and savings deposits respectively.
- lowering of minimum reserve requirements on domestic liabilities.

*31st January*

Restrictions on capital inflows relaxed by Federal Government. Permission no longer mandatory for foreign borrowing by residents, purchase of domestic securities (except bearer bonds and bonds payable to order) by non-residents, and imports of capital equipment. Also, cash deposit rate is cut to 20 per cent from 50 per cent, and the associated deposit-free allowance is doubled to DM 100 000.

*6th February*

Federal Government adopts 1974 Annual Economic Report. Main features include:

- further gradual relaxation of capital inflow controls consistent with domestically oriented monetary policy.
- speedy disbursement of Federal investment appropriations under the preliminary budget administration scheme.
- DM 600 million Federal programme for regions afflicted with specific structural problems.
- contingency plans involving additional public investment, should activity fall suddenly.

*25th March*

Financial Planning Council decides on DM 5 billion contingency budget to be financed jointly by Federal, Lander and local authorities.

*22nd May*

Record DM 136.4 billion Federal budget accepted by Bundestag.

*22nd May*

Central Bank Council reduces rediscount quotas by 25 per cent effective 31st May.

*24th June*

The Financial Planning Council agrees to 10 per cent ceiling on 1975 public expenditure growth because of lower revenue and higher expenditure resulting from the tax and family allowance reforms.

*27th June*

During Concerted Action Committee meeting, Economics Minister signals Government's readiness to take expansionary measures should the economic revival expected for the second half of 1974 fail to materialise.

*3rd July*

Central Bank Council announces:

- raising of rediscount quotas to pre-May 31st levels. Unlimited availability of Lombard credits until 31st July at current rate (9 per cent). Special Lombard credits are no longer extended.

*18th July*

Central Bank Council announces:

- availability of unlimited Lombard credits extended until 31st August;
- assistance for private and small regional banks.
- special rediscount facility of the Reconstruction Loan Corporation raised by DM 500 million.

*16th August*

Minimum reserve requirements for domestic liabilities reduced by 10 per cent effective 1st September.

*11th September*

Cash deposit requirement cancelled. Mandatory authorisation of purchases of securities by non-residents abolished.

*25th September*

Federal Government adopts DM 960 million Special Programme to sustain employment. DM 600 million to be provided by the Federal Government and 350 millions by the Lander. The funds are earmarked almost exclusively for building projects in depressed areas.

*26th September*

Lowering of minimum reserve ratios by 8 per cent with effect from 1st October.

*24th October*

Central Bank Council announces:

- discount and Lombard rates lowered by  $\frac{1}{2}$  per cent to  $6\frac{1}{2}$  and  $8\frac{1}{2}$  per cent respectively; effective 25th October.
- increase in rediscount quotas by DM 2.5 billion effective 1st November.

*5th December*

Bundesbank announces 8 per cent growth objective for central bank money stock during 1976. This is regarded as being consistent with gradual abatement of inflation and with the envisaged real growth target of 2 per cent, year on year.

*12th December*

Federal Government adopts a "Programme to Promote Employment and Growth under Conditions of Stability". The main features are:

- DM 1 130 million additional government expenditure to encourage investment, with priority for energy projects.
- acceleration of 1975 budgeted investment into first half.
- temporary subsidy of up to  $7\frac{1}{2}$  per cent on capital goods ordered between 1st December 1974, and 30th June, 1975.
- assistance measures for the housing sector.
- DM 600 million programme to alleviate employment situation, involving temporary wage cost subsidies for hiring unemployed labour and non-recurrent mobility supplements for chronically unemployed. Also, maximum period for short-time work benefits doubled to two years.

Additional public expenditure to be financed by releasing anti-cyclical reserves deposited at the Bundesbank. (The investment grants to be financed from direct taxes).

*20th December*

Discount and Lombard rates lowered by a further  $\frac{1}{2}$  per cent.

**1975***1st January*

Fiscal reform—comprising DM 4 billion in direct tax reductions and DM 10 billion in additional family allowances in 1975—becomes effective.

*23rd January*

Temporary increase in rediscount quotas by DM  $2\frac{1}{2}$  billion (until end-March).

*29th January*

Federal Cabinet adopts the 1975 Annual Economic Report, which counsels higher employment and growth while consolidating price stability.

*7th February*

Discount rate lowered from 6 to  $5\frac{1}{2}$  per cent and the Lombard rate from 8 to  $7\frac{1}{2}$  per cent.

*7th March*

Discount rate lowered to 5 per cent and Lombard rate to  $6\frac{1}{2}$  per cent.



*25th April*

Lombard rate lowered to 6 per cent.

*22nd May*

Discount and Lombard rates lowered by  $\frac{1}{2}$  percentage point to  $4\frac{1}{2}$  and  $5\frac{1}{2}$  per cent respectively. Minimum reserve ratios lowered by 5 per cent effective 1st June, freeing DM 2.2 billion in bank reserves.

## Annex II

### THE CENTRAL BANK MONEY STOCK<sup>1</sup>

There are at present two different concepts of the Central Bank money stock (CBM) in use in Germany.

- (a) The "Central Bank money stock at constant reserve ratios" (at present those prevailing in January 1974) is the concept used by the Bundesbank. It can be formally written as:

$$CBM_t^{BB} = C_t + \sum_{i=1}^n r_i \times E_{it}^D$$

where

$C$  = Currency in circulation

$r_i$  = legal reserve ratio for domestic deposits of type  $i$  prevailing in January 1974.

$E_i^D$  = level of domestic deposits of type  $i$

$t$  = time subscript

$i$  = type of domestic deposit;  $i = 1, n$

- (b) The "adjusted Central Bank money volume" is the concept used by the Council of Economic Experts (SVR) in its discussion of monetary policy<sup>2</sup>.

It can formally be written as:

$$CBM_t^{SVR} = C_t + LR_t^* + ER_t$$

where

$LR^*$  = required reserves, adjusted for variations in legal reserve ratios

$ER$  = excess reserves

all other symbols having the same meaning as under (a).

$LR_t^*$  is computed as follows:

$$LR_t^* = LR_t + \sum_{k=1}^m \sum_{j=t_0}^t \Delta K_{k,j}$$

with  $LR_t = \sum_{k=1}^m r_{k,t} \times E_{k,t}$

and  $\Delta K_{k,j} = (r_{k,j-1} - r_{k,j}) \times E_{k,j-1}$

1 Cf. Sachverständigenrat: Jahresgutachten 1974 (Bonn: Sachverständigenrat (Bundesdruck-sache 7/2848), 1974), p. 200.

2 Sachverständigenrat, *op. cit.*, pp. 78-89.

where

$LR_t$  = unadjusted legal reserves (including those for foreign deposits)

$\Delta K$  = partial adjustment factor

$j$  = summation index for partial adjustment factors

$k$  = type of deposit,  $k = 1, m; m \geq n$

$E_k$  = level of deposits of type  $k$

$t_0$  = base period (at present January 1960).

all other symbols having the same meaning as under (a).

Besides the difference in the—essentially arbitrary—choice of the base period, the discrepancies between the two concepts can be divided into those of coverage and those of adjustment for changes in the legal reserve ratio. By rearranging the definitional equations it can be shown that the difference in the adjustment procedure is solely due to the choice of reserve ratios applied to increases in deposits: changes in  $CBM^{BB}$  are computed by applying the reserve ratio of the base period (January 1974) to the change in deposits, while changes in  $CBM^{SVR}$  are computed by applying the current reserve ratio to deposit changes<sup>3</sup>.

Differences in coverage of the two concepts are tabulated below:

**Table A. Difference in Coverage of Alternative Concepts of the Central Bank Money Stock**

Item	CBM <sup>BB</sup>	CBM <sup>SVR</sup>
Currency in circulation	included	included
Excess reserves	excluded	included
Legal reserves held for foreign deposits	excluded	included
Legal reserves held for domestic deposits	included	included

Sources : Sachverständigenrat, Bundesbank.

Of these differences the quantitatively more important is the treatment of required reserves on foreign deposits. Especially during times of large speculative capital flows (e. g. 1967-1972) this item accounts for the larger part of differences in the rates of change of the two concepts. The different treatment of excess reserves implies that changes in reserve requirements will immediately affect  $CBM^{SVR}$  on account of the newly created (or eliminated) excess reserves, while  $CBM^{BB}$  will be affected only *after* banks have adjusted their portfolios in response to the change in reserve requirements. Since banks tend to keep excess reserves at a minimum and adjust them rather speedily, monthly averages may not be affected significantly by this difference in coverage. Finally it is important to note that free liquid reserves are not included in either of the two concepts.

3 How important the combined differences are empirically can be seen from Diagram A. The two aggregates obviously changed at rather different rates even for a prolonged period of time between 1966 and 1974. Furthermore, no high correlation between either of the two CBM concepts and nominal GNP is suggested by the growth rates depicted in the graph, except for the years 1965 and 1973/74.

3 This follows since:

$$r_0 \times E_t = r_0 \times E_0 + \sum_{j=t_0}^t r_0 (E_j - E_{j-1}) \quad (\text{Bundesbank concept}),$$

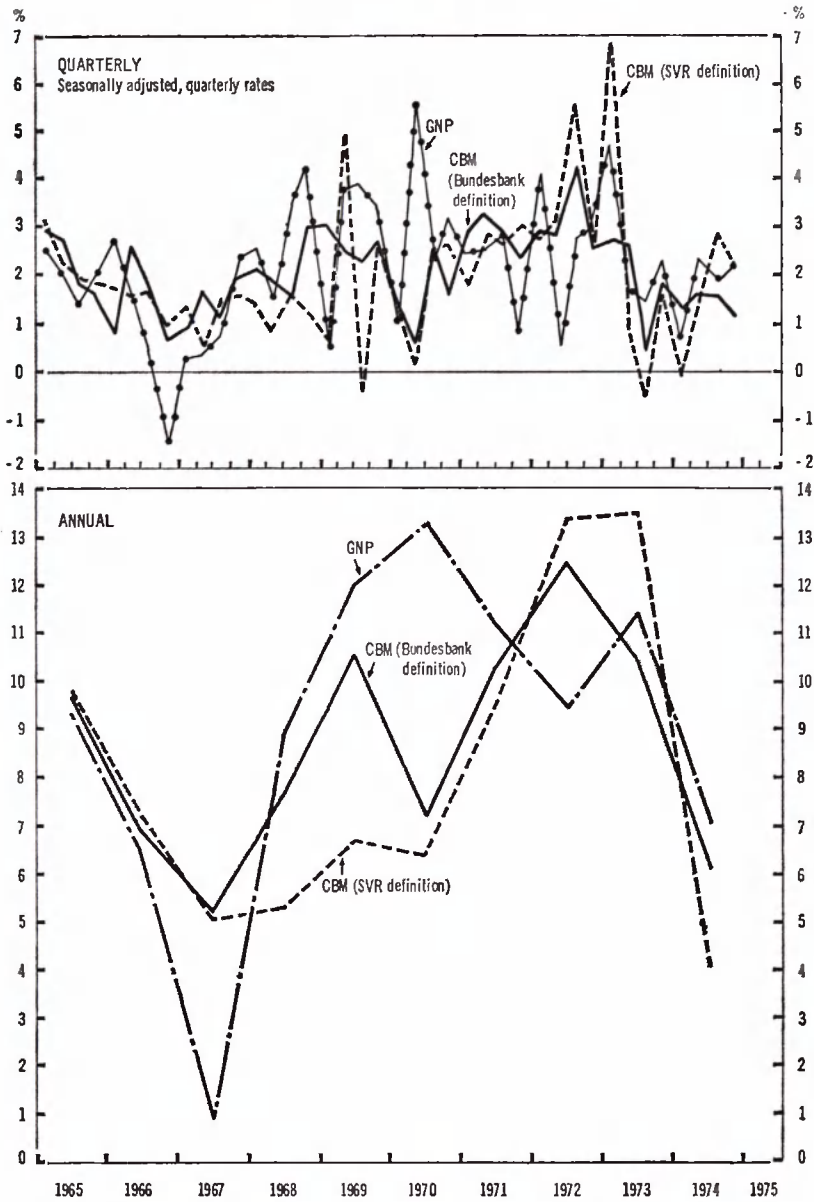
and

$$r_t \times E_t + \sum_{j=t_0}^t \Delta K_j = r_0 \times E_0 + \sum_{j=t_0}^t r_j (E_j - E_{j-1})$$

(Sachverständigenrat concept),

where  $r_0$  represents the minimum reserve ratio of the respective base period and all other symbols have the same meaning as in definitions (a) and (b).

**Diagram A Quarterly and Annual Growth Rates of Nominal GNP and the Central Bank Money Stock (CBM)**



Source: OECD Secretariat.

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### Annex III

## HOUSEHOLD SAVING AND INVESTMENT BEHAVIOUR AND MEDIUM-TERM DEVELOPMENTS OF SECTORAL FINANCIAL BALANCES

The unusual weakness of private investment and consumption during the current recession and the concomitant rise in the public sector deficit raise important questions whether these developments represent purely cyclical factors or also suggest structural changes. The following three sections (a) to (c) attempt to throw some light on these issues.

### (a) INVESTMENT DETERMINANTS

Total investment was disaggregated into five categories:

- (i) business investment in machinery and equipment
- (ii) business construction
- (iii) inventories
- (iv) residential construction
- (v) public investment

Data used consist of seasonally adjusted quarterly volume figures for categories (i), (ii) and (iv), and seasonally adjusted semi-annual volume figures for categories (iii) and (v). All volume figures are in constant 1962 prices. The regression period covers 1960 Q1 to 1973 Q4.

#### (i) *Business investment in machinery and equipment.*

The behavioural assumptions underlying the estimation equation can be represented by the equation :

$$(1) \quad \text{INVM}_t = m(R_t, r_t) \times (K_t^*(\bar{Y}_t, (\bar{P}_k/\bar{P}_L)_t) - K_{t-1})$$

where

- INVM = business investment in machinery and equipment
- $K^*$  = desired stock of machinery and equipment
- $K$  = actual stock of machinery and equipment
- $\bar{Y}$  = expected level of demand (private consumption + total investment + exports)
- $\bar{P}_k/\bar{P}_L$  = expected relative cost of machinery and equipment (see below)
- $m$  = adjustment coefficient
- $R$  = profit variable (see below)
- $r$  = real interest rate (long term bond rate minus distributed lagged values of rates of change of producer prices)
- $t$  = time subscript

The equation is largely self-explanatory: actual investment constitutes the adjustment of the existing equipment stock ( $K_{t-1}$ ) to its desired level ( $K_t^*$ ). The latter depends on the expected level of demand ( $\bar{Y}_t$ ) and the expected relative price of primary inputs equipment and labour ( $\bar{P}_k/\bar{P}_L$ ), thus recognising the possibility

of their mutual substitutability. The speed at which the adjustment takes place is influenced by the profit situation ( $R$ ) as well as the real interest rate ( $r$ ). Expected values of variables ( $\bar{Y}_t$ ,  $\bar{P}_k/\bar{P}_L$ ) were approximated by weighted averages of past values of these variables (Almon lags), i.e.

$$Y_t = \sum_{n=0}^4 W_n Y_{t-n} \text{ and } (\bar{P}_k/\bar{P}_L)_t = \sum_{n=0}^4 V_n (P_k/P_L)_{t-n}$$

where the weights  $W_n$  and  $V_n$  take on the following values.

	$n =$				
	0	1	2	3	4
$W_n$	.15	.25	.27	.22	.11
$V_n$	.08	.28	.31	.23	.10

$P_L$  was measured by compensations per employee, while  $P_k$  was computed as

$$P_k = \frac{P_I \times i}{1 - \frac{1}{(1+i)^s}}$$

where

$P_I$  = national accounts deflator for investment in machinery and equipment

$i$  = interest rate,

$s$  = average lifetime of a piece of equipment

assuming that the imputed user cost of a piece of equipment is spread evenly over its lifetime of  $s$  years.

Profits as an explanatory variable were introduced only in those periods during which the profit/investment ratio fell below its trend value. The rationale for this specification is that past profits are an unsatisfactory indicator of future profits (which are probably better approximated by expected sales) but become an important bottleneck in financing investment if they decline below a "customary" level. Since equation (1) is non-linear in the explanatory variables, a linear approximation of the following specification was estimated:

$$(2) \quad \text{INVM}_t/K_{t-1} = a_0 + a_1 (\bar{Y}_t/K_{t-1}) + a_2 (\bar{P}_k/\bar{P}_L)_t + a_3 r_{t-2} \\ + a_4 (R_{t-2}/K_{t-1}) + a_5 (1/K_{t-1})$$

The estimated coefficients obtained from this equation as well as relevant regression statistics are tabulated in Table A.

## (ii) Business Construction

Theoretical considerations underlying the investment function for business construction are very similar to those discussed in the previous section. The equation representing the behavioural assumptions is

$$(3) \quad \text{INVC}_t = m(R_t, r_t) [K_t^* (\bar{Y}_t) - K_{t-1}]$$

where

INVC = business construction investment

$K^*$  = desired stock of construction capital

$K$  = actual stock of construction capital

and all other symbols have the same meaning and specification as in equation (1). The relative price of primary inputs is, however, omitted as a determinant of the

desired capital stock because factor substitution between labour and business construction was excluded on *a priori* grounds. The specification chosen for the linear approximation to equation (3) was

$$(4) \quad \text{INVC}_t/K_{t-1} = a_0 + a_1(\bar{Y}_t/k_{t-1}) + a_2(R_{t-2}/K_{t-1}) + a_3r_{t-2} + a_4(1/K_{t-1})$$

The estimated coefficients obtained from this equation as well as relevant regression statistics are tabulated in Table A.

### (iii) Inventory Investment

The equation representing the assumptions determining stock-building behaviour is

$$(5) \quad \text{INVS}_t = m(R_t, r_t)[S_t^*(\bar{Y}_t, r_t) - S_{t-1}] + \alpha \dot{P}_t$$

where

- INVS = stock-building
- $S^*$  = desired stocks
- $S$  = actual stocks
- $\dot{P}$  = percentage change of producer prices (excluding value added tax)
- $R$  = profits after tax

all other symbols having the same meaning as in the previous section. The structure of equation (5) is identical to that of equation (3) except for the price change variable ( $\dot{P}$ ) which is a proxy for inflation and is supposed to capture possible speculative behaviour affecting inventory demand. The specification chosen for the linear approximation to equation (5) was

$$(6) \quad \text{INVS}_t/S_{t-1} = a_0 + a_1(\bar{Y}_t/S_{t-1}) + a_2R_t/S_{t-1} + a_3r_t + a_4(1/S_{t-1}) + a_5\dot{P}_t$$

The estimated coefficients obtained from this equation as well as relevant regression statistics are tabulated in Table A.

### (iv) Residential Investment

Total residential housing investment can be disaggregated into three components, i.e. replacement investment (INVHR), net addition to the housing stock (INVHA), and speculative investment (INVHS). Replacement investment will be largely determined by the size of the total housing stock as well as its age structure. Speculative investment will depend mainly on absolute and/or relative rates of inflation, while net additions to the housing stock will depend on the discrepancies between the actual and the desired housing stock, the latter depending on the number of households, their income, and the relative cost of housing. How fast the gap between the actual and the desired housing stock is closed will depend chiefly on the real cost of credit. These behavioural assumptions are represented symbolically by the following equation:

$$(7) \quad \text{INVH} = \text{INVHR}(H_{t-1}) + m(r_{t-2})(H_t^*(Y_t, N_t, P_t) - H_{t-1}) + \text{INVHS}(\dot{P}_t)$$

where

- $H$  = housing stock (number of dwelling units)
- $H^*$  = desired housing stock
- $Y$  = real disposable income
- $N$  = number of married couples (all ages) plus single adults (above 25 years of age)
- $P$  = ratio of residential construction and consumer price index
- $\dot{P}$  = rate of change of  $P$

and all other variables having the same meaning as mentioned before. The linear approximation to equation (7) actually used for regression analysis is

$$(8) \quad \text{INVH}_t/H_{t-1} = a_0 + a_1r_{t-2} + a_2(Y_t/H_{t-1}) + a_3(N_t/H_{t-1}) + a_4\dot{P}_t + a_5(1/H_{t-1})$$

The estimated coefficients obtained from this equation as well as relevant regression statistics are tabulated in Table A.

(v) *Public Investment*

Government investment is assumed to be determined by infrastructure requirements, cyclical economic policy considerations, and financing possibilities of the public sector. These behavioural assumptions underlying the estimation equation can be represented by the equation

$$(9) \quad \text{INVP}_t = m(U_t, B_t) (K_t^*(Y_t, N_t, S_t) - K_{t-1})$$

where

INVP = public investment

$K^*$  = desired stock of "public" capital

$K$  = actual stock of "public" capital

$U$  = rate of unemployment

$B$  = real government savings and depreciation (minus net wealth transfers)

$Y$  = real disposable income

$N$  = population

$S$  = share of 5-20 year olds in total population,

all other variables having the same meaning as before. The linearized regression equation derived from behavioural equation (9) is

$$(10) \quad \text{INVP}_t/K_{t-1} = a_0 + a_1 U_t + a_2 (B_t/K_{t-1}) + a_3 (Y_t/K_{t-1}) + a_4 S_t + a_5 (1/K_{t-1}) + a_6 (N_t/K_{t-1})$$

No meaningful results were, however, obtained, and apart from the population variable 'S', none of the explanatory variables was found to be significant.

(b) DETERMINANTS OF HOUSEHOLD SAVINGS BEHAVIOUR

The behavioural assumptions underlying the estimation equation for the savings rate can be represented by the implicit consumption function :

$$(11) \quad C_t = f(Y_t, \bar{Y}_t, T_t, R_t, d_t, r_t, \dot{P}_t, U_t)$$

where

$C$  = private consumption expenditure (volume)

$Y$  = real disposable income, actual values<sup>1</sup>

$\bar{Y}$  = real disposable income, trend value<sup>2</sup>

$T$  = share of transfer payments in disposable income

$R$  = share of profit income in disposable income

$d$  = rate of change of real disposable income

$r$  = nominal interest rate

$P$  = rate of change in the consumer price index

$U$  = unemployment rate

The rationale for the inclusion of the various explanatory variables in equation (11) is as follows: inclusion of  $T$  and  $R$  make it possible to test the hypothesis that recipients of different types of income display different savings behaviour. The effect of variable  $d$  on consumption may serve as an indicator of how relevant the permanent income hypothesis is in the German context. The unemployment rate ( $U$ ) is supposed to capture effects of (income) uncertainty on savings behaviour, while the interest rate ( $r$ ) and the rate of inflation ( $\dot{P}$ ) are assumed to affect consumption because of their effects on the real return on savings. Neglecting for the moment

1 Calculated by deflating nominal disposable income by the consumer price index.

2 Semi-logarithmic time trend of quarterly data from 1952 to 1974.



the non-income variables in equation (11), and noting the identity  $S = Y - C$  ( $S$  = savings), the basic hypothesis underlying the analysis can be represented by the following equation:

$$(12) \quad S_t = b_0 + b_1 \bar{Y}_t + b_2 (Y_t - \bar{Y}_t)$$

The rationale for equation (12) is that savings decisions—the obverse of consumption decisions—are based primarily on “normal” (i.e. trend) rather than current income levels. It is further hypothesised that any discrepancy between current and “normal” income will be partly saved, if positive, and partly dissaved if negative (i.e.  $b_2 > 0$ ). Dividing through by  $\bar{Y}_t$  to avoid heteroscedasticity and inserting the other explanatory variables mentioned above gives the linear estimation equation below:

$$(13) \quad S_t/\bar{Y}_t = a_0 + a_1(1/\bar{Y}_t) + a_2(Y_t/\bar{Y}_t) + a_3T_t + a_4R_t + a_5r_t + a_6\bar{P}_t + a_7U_t$$

The estimated coefficients obtained from this equation as well as relevant regression statistics are tabulated in Table A.

**Table A. Estimated Regression Coefficient**  
Bracketed figures underneath estimated coefficients are values of t-statistics

Equation number	$a^0$	$a^1$	$a^2$	$a^3$	$a^4$	$a^5$	$a^6$	$a^7$	$\bar{R}^2$	DWS
(2)	—	1.52 (26.2)	-0.27 (7.0)	-0.52 (1.2)	0.94 (3.8)	6.60 (3.4)	—	—	0.863	1.05
(4)	-29.07 (2.4)	0.53 (6.1)	<sup>1</sup> (1.5)	-0.35 (1.7)	1.76 (17.0)	—	—	—	0.858	0.98
(6)	-98.12 (3.6)	1.97 (2.6)	0.41 (5.1)	-5.41 (3.9)	<sup>1</sup> (2.3)	5.61 (2.3)	—	—	0.786	2.02
(8)	-26.47 (2.1)	0.187 (0.1)	-1.383 (0.4)	1.487 (2.8)	186.7 (1.8)	-4.20 (2.0)	—	—	0.837	1.52
(13)	-45.8 (3.4)	-529 (5.5)	50.6 (6.8)	45.6 (1.6)	21.1 (1.9)	0.0004 (0.03)	0.046 (0.9)	0.612 (2.2)	0.869	1.14

1 This variable was found to be insignificant and was therefore dropped from the equation.

### (c) SECTORAL FINANCIAL BALANCES

The interplay of the economic decisions of the various sectors of the economy is reflected—and shown in Table B—as changes in the financial surpluses and deficits of the four main “economic agents” of a national economy: private households, business sector, public sector and the foreign sector<sup>3</sup>. It is important to bear in mind the elementary proposition that *ex post*, total surpluses must equal total deficits whatever the *ex ante* intentions may be, with changes in the level of activity and/or relative prices bringing this about. An individual sector cannot arbitrarily increase its surplus unless the other sectors are either willing or forced to expand their combined deficit accordingly. Another important point is that changes in financial balances resulting from changes in transfer payments do not involve changes in the command of real resources; the public sector, for example, can increase its deficit by reducing taxes without increasing its claims on real resources.

As can be seen from Table B the private household sector has tended to increase its surplus over time as a proportion of GNP, whereas the traditional deficit of the business sector has strongly fluctuated relative to GNP around the 1960-1974 ave-

3 The advantage of this approach is that it reduces to a common denominator, namely the financial balance, the effects of various decisions or intentions to save or invest, tax or spend, export or import.



rage, falling sharply in recessionary periods and rising during upswings. These changes (largely cyclical but perhaps partly secular) in the household and business sector balances have necessarily had their counterpart in offsetting changes in the financial balances of the public and foreign sectors. The financial deficit of the foreign sector (corresponding to Germany's current surplus minus net wealth transfers to abroad) rose steeply between 1971 and 1974, reflecting to a great extent cyclical factors. The public sector has tended to move gradually in a "negative" direction over a longer time-span with sharper deteriorations in the net asset/liability position during cyclical downswings.

Mirroring the exceptional severity of the current recession, changes in the financial position of the various sectors have been particularly marked. Tentative Secretariat estimates suggest that between 1973 and 1975 net borrowing requirements of the business sector in terms of GNP will drop by about  $6\frac{1}{2}$  percentage points to reach an all-time low of 1.3 per cent of GNP. In the 1967 recession year the deficit fell to 3 per cent of GNP and was  $5\frac{1}{2}$  percentage points below the previous peak level. The contractionary effect of the recent fall in private investment was—contrary to the 1967 experience—exacerbated by a continued sharp rise in the private household saving ratio. As a net result, 1975 is likely to see a financial surplus of the aggregated domestic private sector of as much as 7 per cent of GNP. Since the foreign sector's financial "deficit" is expected to shrink, the full burden of adjustment will be carried by the public sector. As indicated in the main body of this Survey, the widening public deficit reflects automatic stabiliser effects as well as discretionary fiscal measures with the latter—in an *ex ante* sense—only partly offsetting depressed private investment and increased private saving.

While the present unparalleled size of the public sector deficit serves to prevent a cumulative downturn in income and activity, it follows from the above analysis that it will have to decline once a new business upswing has been generated. Where

Table B Sectoral Financial

	Private Households <sup>1</sup>			Business Sector <sup>2</sup>			
	Savings <sup>4</sup>	Net wealth transfers	Financial balance	Gross investment	Gross savings <sup>5</sup>	Depreciation	Net wealth transfers
1960	5.3	-0.3	5.1	23.7	15.5	8.1	1.1
1961	5.5	-0.3	5.1	23.8	14.4	8.4	1.8
1962	5.5	-0.5	5.0	23.2	13.7	8.8	2.4
1963	6.2	-0.6	5.7	22.0	13.3	9.2	2.0
1964	7.0	-0.6	6.4	23.5	13.9	9.3	2.0
1965	7.8	-0.6	7.2	24.3	14.1	9.5	1.9
1966	7.1	-0.8	6.3	22.1	13.9	9.8	2.0
1967	7.1	-1.0	6.2	19.0	13.8	10.3	2.2
1968	7.6	-1.0	6.6	21.3	15.3	10.0	2.2
1969	7.9	-0.9	6.9	22.9	13.3	10.0	2.4
1970	8.5	-1.0	7.4	24.3	14.0	10.3	2.5
1971	8.3	-0.9	7.4	23.2	13.1	10.5	2.5
1972	9.1	-1.2	7.9	22.8	12.4	10.5	2.8
1973	8.4	-1.2	7.2	22.2	11.6	10.5	2.8
1974	9.3	-1.3	7.9	18.9	11.1	11.1	3.0
1975 <sup>8</sup>	9.9	-1.4	8.4	17.4	12.8	11.7	3.2

1 Including non-profit organisations.

2 Including housing.

3 Regional Authorities (including Federal Government) and Social Security Administration.

4 Excluding undistributed profits of unincorporated business.

5 Including depreciation.

6 Balance on goods, services and factor payments.

7 Current and capital transfers.

8 Secretariat forecast.

Source: OECD Secretariat.

the new full-employment equilibrium position will lie is of course impossible to say. The current personal saving ratio certainly includes an important cyclical, and hence temporary, element but the "underlying rate" cannot be ascertained with any reasonable degree of accuracy. On the other hand, the foreign sector deficit (the financial counterpart of the current surplus minus net international wealth transfers) is generally thought to be too high on domestic welfare and international equilibrium considerations, and some decline would be acceptable and desirable, even after eliminating the large cyclical component of the present high current external surplus. There are some indications that a downward adjustment of the current surplus may be under way, reflecting changes in the international competitive position of the German economy.

In evaluating likely future developments the present structural weakness of housebuilding demand will have to be borne in mind. Of even greater importance is the official aim of substantially raising the ratio of business investment to GNP. In fact,

- (i) Business fixed asset formation has stagnated for four years now, reducing the potential future growth rate.
- (ii) The domestic labour force is likely to grow over the next five years by close to half a million persons, after many years of gradual decline.
- (iii) Following the sharp rise in oil prices and increasing concern with the quality of the environment, large-scale investments in the energy sector as well as for energy-saving and for environmental protection are required.

All this underlines the desirability of a considerably higher level of industrial investment than in the recent past. Whether the achievement of this aim will require temporary or more permanent policy changes, with possible implications for the budget balance, remains to be seen and may constitute one of the most important economic policy issues in coming years.

#### Balances in per cent of GNP

Financial balance	Public Sector <sup>a</sup>				Foreign Sector		
	Savings <sup>b</sup>	Gross investment	Net wealth transfers	Financial balance	Foreign balance <sup>c</sup>	Net transfer payments <sup>d</sup>	Financial balance (sign reversed)
-7.1	7.6	3.1	-1.2	3.3	2.5	-1.2	-1.3
-7.6	8.2	3.4	-1.8	3.0	2.0	-1.4	-0.6
-7.1	7.8	3.9	-2.2	1.6	1.0	-1.5	0.5
-6.8	6.9	4.2	-1.6	1.1	1.3	-1.4	0.0
-7.6	7.3	4.6	-1.5	1.1	1.2	-1.3	0.1
-8.4	5.5	4.4	-1.5	-0.4	-0.1	-1.5	1.6
-6.2	5.5	4.3	-1.3	-0.1	1.3	-1.3	0.0
-3.0	3.8	3.7	-1.4	-1.3	3.2	-1.3	-1.9
-3.9	4.3	3.8	-1.3	0.9	3.3	-1.4	-1.9
-7.1	6.6	3.9	-1.6	1.2	2.5	-1.4	-1.0
-7.8	6.3	4.3	-1.6	0.5	1.6	-1.5	-0.1
-7.7	6.1	4.1	-1.7	0.2	1.6	-1.7	0.1
-7.6	5.2	3.7	-1.6	-0.1	1.9	-1.8	-0.1
-7.9	6.7	3.5	-1.7	1.6	2.7	-1.8	-0.9
-4.8	4.7	3.9	-1.8	-0.9	3.8	-1.6	-2.2
-1.3	0.1	4.0	-2.0	-5.9	2.8	-1.6	-1.2

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***STATISTICAL ANNEX***



Table A Gross National Product  
DM billion

	Current prices				1962 prices			
	1971	1972	1973	1974	1971	1972	1973	1974
<i>Expenditure:</i>								
Private consumption	410.5	450.9	496.7	534.2	315.1	328.2	337.8	338.4
Public consumption	130.6	146.5	168.6	195.7	74.0	76.9	79.9	83.4
Gross fixed asset formation	203.1	217.4	230.0	226.1	146.5	150.4	152.1	140.1
Machinery and equipment	91.1	92.5	96.4	95.2	73.9	73.9	75.3	69.6
Construction	112.0	124.9	133.6	130.9	72.6	76.6	76.8	70.5
Change in stocks	5.4	4.4	9.6	1.3	4.8	3.8	7.9	1.0
Exports of goods and services	174.2	190.2	226.2	295.6	157.0	169.3	196.8	223.1
Imports of goods and services	162.0	174.8	200.8	257.4	152.2	164.6	180.8	189.7
Gross national product at market prices	761.9	834.6	930.3	995.5	545.2	564.0	593.8	596.3
<i>Origin:</i>								
Agriculture, forestry, fishing	22.3	24.8	27.4	28.2	21.5	21.2	21.9	23.5
Industry, building, energy, water	408.3	440.0	484.4	505.0	312.3	322.9	341.9	337.4
Trade, transport, communications	137.4	150.0	167.9	183.2	101.8	104.1	109.0	110.2
Other services	202.6	229.6	262.4	293.3	110.2	115.9	121.4	126.7
Gross domestic product at market prices	762.5	834.6	930.6	997.9	545.8	564.1	594.1	597.8

NOTE Figures may not add up due to rounding.

Source: Statistisches Bundesamt.

**Table B Distribution of National Income**  
DM billion, current prices

	1970	1971	1972	1973	1974
Compensation of employees	353.2	400.2	439.2	498.6	547.3
Employers' contributions to social security	42.3	49.9	57.1	68.3	76.1
Employees' social security payments and wage tax	69.3	82.8	90.2	112.6	128.5
Net wages and salaries	241.6	267.5	291.9	317.7	342.7
Distributed profits, etc.	114.6	128.6	146.5	159.8	169.6
Current transfers from the state	86.0	96.0	109.0	121.6	140.5
less: Interest on consumer debt, etc.	15.4	18.1	20.7	24.5	26.3
Disposable income <sup>1</sup>	426.9	474.0	526.7	574.6	626.6
Income from property and entrepreneurship	176.0	185.5	200.7	218.5	217.0
Direct taxes, etc.	35.0	37.1	39.6	49.7	51.1
Net income from property and entrepreneurship	141.0	148.3	161.1	168.8	165.9
of which:					
Distributed to households	111.5	124.9	142.3	153.9	162.8
Distributed to state	4.2	4.7	3.2	4.2	2.4
Retained	25.4	18.7	15.6	10.7	0.7
National income	529.2	585.7	639.9	717.2	764.4

<sup>1</sup> Excluding retained profits.

Source: Statistisches Bundesamt.

Table C Employment and Labour Market  
Thousands

	1972	1973	1974	1973				1974				1975
				I	II	III	IV	I	II	III	IV	I
Labour force	26 901	26 985	26 813	26 911	26 922	27 067	27 042	26 975	26 809	26 776	26 694	
Employment, total (residents)	26 655	26 712	26 231	26 582	26 690	26 851	26 725	26 387	26 315	26 269	25 953	
German nationals	24 370					24 256	24 205	23 897	23 875	23 919		
Foreign nationals <sup>1</sup>	2 285					2 595	2 520	2 490	2 440	2 350		
Self-employed, and family workers	4 220	4 148	4 118	4 158	4 150	4 146	4 138	4 112	4 090	4 064	4 050	
Wage and salary earners (residents)	22 435	22 564	22 113	22 424	22 540	22 705	22 587	22 275	22 225	22 205	21 903	
Wage and salary earners in manufacturing and building	9 591	9 615	9 232	9 525	9 634	9 697	9 607	9 351	9 302	9 243	9 033	8 682
of which: Basic materials	1 741	1 747	1 716	1 728	1 745	1 762	1 753	1 718	1 724	1 726	1 698	1 648
Investment goods	3 857	3 931	3 892	3 886	3 911	3 951	3 975	3 944	3 915	3 892	3 819	3 716
Consumer goods	1 953	1 925	1 793	1 947	1 933	1 924	1 894	1 843	1 811	1 781	1 735	1 687
Food, drink, tobacco	507	504	479	501	499	512	509	487	470	477	480	464
Building construction	1 533	1 508	1 352	1 463	1 546	1 548	1 476	1 359	1 382	1 367	1 301	1 167
Hours worked in manufacturing (million)	14 743	14 768	13 962	3 764	3 699	3 557	3 751	3 610	3 527	3 369	3 456	3 176
Hours worked in building (million)	2 524	2 352	2 070	501	655	635	560	469	560	538	503	384
Short-time workers	76	44	292	20	24	20	111	278	210	171	511	890
Unemployment, seasonally adjusted	246	273	582	229	259	294	365	427	559	697	824	831
Vacancies, seasonally adjusted	546	572	315	608	601	579	469	372	318	268	287	285

1 Quarterly figures relate to end of quarter.

Sources: Statistisches Bundesamt; Main Economic Indicators, OECD.

**Table D Industrial Production, New Orders and Deliveries**  
Seasonally adjusted. Indices, 1970 = 100

	1972	1973	1974	1973				1974				1975
				I	II	III	IV	I	II	III	IV	I
<b>Production:</b>												
Industry, excl. building	105.7	113.2	111.9	112.8	113.2	113.1	115.4	114.4	113.3	111.6	108.7	105.6
Mining and quarrying	93.3	92.3	91.4	96.0	91.3	91.2	91.2	93.0	90.2	91.4	90.6	88.8
Capital goods	102.3	110.3	107.2	109.8	110.1	109.6	114.1	110.0	109.0	106.7	104.7	100.7
Consumer goods <sup>1</sup>	109.6	112.2	107.7	115.2	113.9	111.3	110.9	111.2	110.7	105.7	103.9	103.9
Materials	106.0	116.3	116.0	115.5	115.9	116.4	118.6	119.6	118.1	116.1	109.7	102.9
Building, not seasonally adjusted	109.0	110.3	104.8	89.4	126.3	118.1	107.4	90.1	121.1	106.7	102.5	78.8
<b>New orders in manufacturing<sup>1</sup>:</b>												
Total manufacturing, all markets	111	129	138	130	131	127	127	136	141	139	134	130
domestic	109	121	124	125	125	118	116	124	127	124	121	122
foreign	116	153	178	146	147	155	166	167	184	186	173	154
Capital goods, all markets	107	130	133	133	136	127	124	133	135	133	132	131
domestic	105	119	116	126	127	112	109	120	116	114	113	122
foreign	113	154	175	149	150	156	159	165	179	179	177	156
Consumer goods, all markets	119	125	127	130	127	123	121	126	130	126	125	121
domestic	119	124	123	128	123	120	123	122	126	122	122	119
foreign	123	149	154	145	154	144	155	156	157	157	145	136
<b>Deliveries by manufacturing<sup>1</sup>:</b>												
Total manufacturing, all markets	113	126	141	123	124	126	129	136	142	143	142	135
domestic	111	121	130	120	121	121	122	126	131	132	130	127
foreign	118	140	171	134	136	142	150	164	173	174	174	161
Capital goods, all markets	115	126	134	125	127	127	126	129	134	135	136	132
domestic	113	121	124	121	122	121	120	119	124	126	125	123
foreign	120	140	157	135	137	141	147	151	157	156	163	156
Consumer goods, all markets	117	125	132	125	126	124	124	130	134	133	131	126
domestic	116	123	128	123	124	122	121	126	129	129	127	123
foreign	119	142	162	136	140	142	151	162	167	164	154	144

<sup>1</sup> Excluding food, drink and tobacco.

Sources: Main Economic Indicators, OECD; IFO Schnelldienst.



Table E Wages and Prices  
Indices

	Base year	1972	1973	1974	1973				1974				1975
					I	II	III	IV	I	II	III	IV	I
Earnings and productivity in manufacturing:													
Hourly wage rates	1970	123.0	135.0	151.2	131.0	134.2	137.0	137.9	145.8	150.5	153.5	154.9	161.8
Hourly gross earnings	1970	120.7	133.6	147.7	128.5	132.8	136.4	136.8	138.7	148.5	151.9	152.0	154.2
Labour cost per unit of output	1970	111.8	118.2	131.8	110.7	115.7	123.1	123.3	119.8	128.0	138.1	141.9	139.6
Agricultural producer prices	1961-63	112.9	122.4	116.3	122.3	124.3	119.8	122.9	119.4	113.9	113.0	118.9	119.8
Vegetable products	—	94.9	107.4	96.4	111.6	118.9	100.9	98.0	100.1	97.7	92.8	93.0	95.5
Animal products	—	118.9	127.4	123.0	125.9	126.2	126.2	131.3	125.9	118.6	119.7	127.6	127.8
Industrial producer prices, home market sales <sup>1</sup> *	1970	107.0	114.1	129.4	111.1	113.2	115.1	117.2	124.5	128.8	131.3	133.0	134.6
of which: Capital goods	—	111.9	117.0	127.6	115.0	117.0	117.7	118.5	122.9	127.0	129.4	131.3	136.5
Consumer goods <sup>2</sup>	—	108.4	116.7	130.4	113.2	115.0	117.7	121.0	127.5	128.8	131.8	133.5	134.9
Cost of dwelling construction <sup>4</sup>	1962	174.3	187.1	200.8	180.3	188.5	189.9	189.8	193.9	202.2	203.6	203.4	203.7
Export prices, industrial goods	1970	106.1	111.8	127.8	109.6	111.3	112.0	114.2	122.1	127.2	130.4	131.5	133.2
of which: Capital goods	—	111.3	116.8	127.1	115.1	116.6	117.4	118.2	122.7	126.3	128.6	130.8	135.5
Consumer goods <sup>3</sup>	—	108.0	113.8	128.2	111.8	113.3	113.6	116.3	124.9	127.7	129.1	130.9	133.7
Import prices, industrial goods	—	99.5	110.4	147.8	105.8	107.7	108.2	119.9	145.9	147.9	149.2	148.1	144.6
of which: Capital goods	—	102.0	102.4	108.0	104.1	103.1	100.4	102.1	105.1	105.7	109.4	111.6	114.9
Consumer goods <sup>3</sup> *	—	104.3	119.7	137.3	112.6	115.8	116.0	134.3	140.3	135.0	136.6	137.1	135.8
The cost of living	—	111.1	118.8	127.1	116.0	118.2	119.3	121.7	124.6	126.6	127.8	129.5	132.0
Food, drink, tobacco	—	109.7	118.0	123.6	115.6	119.0	118.3	119.0	121.8	124.2	123.6	124.7	127.1
Non-food	—	111.7	119.2	128.9	116.2	117.9	119.9	122.9	125.9	127.8	129.9	131.9	134.4
of which: Rent	—	112.5	119.2	125.1	117.0	118.6	119.8	121.2	123.2	124.6	125.8	126.8	129.4

1 Excluding turnover tax from 1968.

2 Including petroleum products.

3 Excluding food, drink and tobacco.

4 Data relate to the end of February, May, August and November.

Source: Statistisches Bundesamt: Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung.

**Table F Volume of Money, Monetary Capital Formation and Bank Liquidity**  
DM billion, end of period

	1971	1972	1973				1974				1975
			I	II	III	IV	I	II	III	IV	I
<b>Volume of money</b>	121 522	139 298	133 354	133 359	129 098	142 862	132 873	140 795	141 477	158 432	149 341
Note and coin circulation <sup>1</sup>	40 292	45 767	44 673	46 227	45 805	47 429	46 224	48 392	49 429	51 524	51 142
Sight deposits of German non-banks	81 230	93 531	88 681	87 132	83 293	95 433	86 649	92 403	92 048	106 908	98 199
<b>Banks' lending to domestic non-banks</b>	594 752	681 676	699 767	717 912	731 839	756 976	762 534	778 622	793 014	814 886	818 920
Bundesbank	11 554	9 486	8 860	9 298	9 298	11 852	10 539	9 305	9 268	10 376	11 114
Credit institutions	583 198	672 190	690 907	708 614	722 541	745 124	751 995	769 317	783 746	804 510	807 806
Public authorities	92 631	102 861	105 783	106 791	108 155	113 848	114 971	119 108	124 125	132 388	137 340
Other non-banks	490 567	569 329	585 124	601 823	614 386	631 276	637 024	650 209	659 621	672 122	670 466
Short-term	135 223	159 128	158 122	162 452	165 662	169 695	172 583	181 675	182 744	186 132	181 735
Medium and long-term	419 626	484 939	504 221	518 275	529 017	546 469	550 949	559 303	572 596	588 743	595 803
Security holdings	20 846	21 008	21 425	20 909	21 099	22 284	21 803	21 774	22 034	23 413	24 061
Other	7 503	7 115	7 139	6 978	6 763	6 676	6 660	6 565	6 372	6 222	6 207
<b>Domestic monetary capital formation</b>	518 719	600 659	622 162	641 648	658 682	692 024	700 304	707 464	710 152	743 734	758 299
Time deposits	178 916	203 558	214 006	226 602	238 825	246 984	248 741	248 155	244 933	251 272	245 846
Public authorities	99 725	107 171	112 235	113 278	114 899	116 624	117 599	118 468	118 912	119 009	121 568
Other non-banks	79 191	96 387	101 771	113 324	123 926	130 360	131 142	129 687	126 021	132 263	124 278
Savings deposits <sup>2</sup>	237 615	272 479	276 281	275 474	274 324	296 829	299 470	303 130	306 899	331 906	346 640
Bank bonds held by non-banks	71 861	90 086	96 106	102 624	108 142	110 014	113 180	116 323	117 841	119 308	123 316
Capital and reserves	30 327	34 536	35 769	36 948	37 391	38 197	38 913	39 856	40 479	41 262	42 497
<b>Changes in primary money (DM million)<sup>3</sup></b>											
Bundesbank net foreign exchange purchases			20 509	96	7 088	-445	-3 078	5 613	-6 319	958	4 753
Bundesbank net open market purchases (incl. special Lombard credit)			-1 631	-772	-2 594	-270	-203	104	4 274	-3 649	-1 794
Net increase in other Bundesbank assets			-4 585	-183	-3 768	6 101	-5 326	-1 257	-4 698	3 641	-1 193
<b>1 Gross creation of primary money</b>			14 293	-859	726	5 386	-8 607	4 460	-6 743	950	1 766
Policy induced increase in banks' reserve balances (—) <sup>4</sup>			-4 857	—	—	-976	2 359	—	4 739	3 318	—
Increase in required reserves on banks' foreign liabilities (—)			-7 893	6 694	604	57	2 279	-398	192	235	94
Increase in Bardepot requirements (—) <sup>5</sup>			325	694	56	147	-135	53	-188	377	-235
<b>2 Net increase in compulsory reserves (—)</b>			-12 425	7 388	660	-772	4 503	-345	4 743	3 930	-141
<b>3 Net creation of primary money (1 + 2)<sup>3</sup></b>			1 868	6 529	1 386	4 614	-4 104	4 115	-2 000	4 880	1 625

1 Excluding bank holdings.

2 Including savings certificates.

3 Changes in notes and coin in circulation and banks' required reserves against domestic liabilities excluding net conversion of banks' free liquid reserves (refinancing quotas at central bank and eligible money market paper) into primary money.

4 Due to changes in reserve ratios on domestic bank liabilities.

5 Compulsory special reserves held by non-banks and credit institutions against foreign liabilities.

Source: Deutsche Bundesbank.

Table G Merchandise Trade by Area  
DM million, monthly averages

	Total	OECD countries					Third countries				
		Total	EEC	EFTA	North America	Other	Europe <sup>1</sup>	Africa	Central and South America	Asia	Sino-Soviet Area
<i>Imports, cif</i>											
1971	10 010	7 830	5 180	916	1 157	577	96	665	424	591	397
1972	10 729	8 326	5 762	950	1 015	599	121	650	458	608	444
1973	12 118	9 310	6 295	1 062	1 152	801	138	775	501	808	551
I	11 951	9 301	6 281	1 027	1 169	824	143	752	497	763	448
II	12 224	9 551	6 545	1 097	1 139	770	137	741	482	753	521
III	11 170	8 500	5 715	998	1 059	728	130	663	536	766	536
IV	13 126	9 889	6 639	1 127	1 242	881	142	946	489	950	701
1974	14 978	10 612	7 179	1 255	1 331	851	137	1 353	581	1 548	700
I	13 803	9 825	6 625	1 122	1 326	760	131	1 444	448	1 339	591
II	15 064	10 707	7 429	1 221	1 294	770	127	1 319	561	1 566	715
III	15 250	10 673	7 208	1 270	1 330	866	137	1 275	715	1 664	721
IV	15 794	11 241	7 454	1 406	1 373	1 008	152	1 374	599	1 621	774
1975											
I	14 045	10 206	6 887	1 232	1 302	785	137	1 078	447	1 393	629
<i>Exports, fob</i>											
1971	11 334	9 123	5 277	1 840	1 216	790	214	507	464	553	485
1972	12 419	9 887	5 829	2 025	1 279	754	209	477	502	579	638
1973	14 866	11 801	7 006	2 338	1 387	1 070	254	635	531	739	901
I	13 914	11 226	6 702	2 157	1 407	960	218	514	513	641	781
II	14 543	11 665	6 878	2 327	1 439	1 021	252	658	479	668	816
III	14 481	11 348	6 669	2 232	1 377	1 070	254	613	549	777	916
IV	16 528	12 964	7 774	2 639	1 326	1 225	293	754	582	871	1 092
1974	19 215	14 458	8 626	2 865	1 603	1 374	383	940	850	1 184	1 323
I	18 227	14 407	8 590	2 720	1 647	1 457	298	792	702	1 015	1 063
II	19 064	14 639	8 783	2 828	1 650	1 394	362	868	773	1 132	1 226
III	19 158	14 253	8 569	2 887	1 447	1 364	430	969	917	1 147	1 375
IV	20 411	14 532	8 564	3 025	1 668	1 281	443	1 131	1 009	1 442	1 629
1975											
I	17 560	12 574	7 651	2 662	1 189	1 072	362	953	776	1 319	1 311

1 Excluding Eastern Bloc countries.

Source: Statistisches Bundesamt.

**Table H Merchandise Trade by Commodity Groups**  
DM million, monthly averages

	1970	1971	1972	1973	1974	1974				1975
						I	II	III	IV	I
Imports, cif										
Products of agriculture, forestry and fishing	1 246	1 302	1 386	1 542	1 636	1 539	1 831	1 486	1 690	1 632
Basic materials and semi-finished goods	3 582	3 646	3 763	4 567	6 911	6 362	6 975	7 323	6 982	5 891
Manufactured foods and tobacco	753	847	957	1 079	1 111	1 077	1 017	1 085	1 266	1 094
Other consumer manufactures	1 229	1 485	1 796	1 963	2 148	2 012	2 079	2 245	2 255	2 254
Investment goods	2 046	2 340	2 501	2 655	2 760	2 449	2 809	2 694	3 086	2 816
Other imports	278	390	326	312	412	364	353	417	515	358
Total	9 134	10 010	10 729	12 118	14 978	13 803	15 064	15 250	15 794	14 045
Exports, fob										
Products of agriculture, forestry and fishing	139	125	163	208	191	230	172	164	198	191
Basic materials and semi-finished goods	3 054	3 188	3 363	4 221	6 595	5 963	6 581	7 052	6 786	5 820
Manufactured foods and tobacco	256	331	371	512	700	673	682	711	736	708
Other consumer manufactures	1 166	1 298	1 438	1 725	2 029	2 089	2 039	2 012	1 977	1 793
Investment goods	5 656	6 207	6 898	8 010	9 455	9 068	9 344	8 965	10 443	8 794
Other exports	169	185	186	190	245	204	246	254	271	254
Total	10 440	11 334	12 419	14 866	19 215	18 227	19 064	19 158	20 411	17 560

Source: Statistisches Bundesamt.



Table I The Balance of Payments  
DM million

	1970	1971	1972	1973	1974
Trade balance	20 820	23 271	26 384	39 891	56 229
Exports, fob	125 019	135 697	148 703	178 039	229 728
Imports, fob	102 855	112 749	121 748	137 853	172 275
Merchandise transactions abroad	-1 344	323	-571	-295	-1 224
Services, net	-7 878	-8 693	-9 902	-12 553	-15 261
Foreign travel, net	-5 377	-6 957	-8 574	-11 463	-12 337
Transportation, net	-2 042	-2 697	-2 410	-2 686	-1 027
Investment income, net	-200	760	1 061	1 555	40
Receipts from foreign troops	5 756	6 582	6 900	7 099	7 437
Other services, net	-6 015	-6 381	-6 879	-7 058	-9 374
Transfers, net	-9 759	-11 497	-14 009	-15 842	-16 905
Official, net	-3 727	-3 944	-5 575	-6 361	-7 294
Private, net	-6 032	-7 553	-8 434	-9 481	-9 611
<i>of which: Foreign worker remittances</i>	-5 000	-6 450	-7 450	-8 450	-8 350
Current balance	3 183	3 081	2 474	11 496	24 064
Long-term capital, net <sup>1</sup>	-934	6 293	15 545	12 437	-5 748
Official, net <sup>1</sup>	-2 388	-2 166	-1 483	-2 216	-804
Private, net	1 454	8 458	17 029	14 653	-4 944
Foreign investment in Germany, net	10 102	12 485	16 714	15 363	4 363
Portfolio investment, net	1 338	2 008	10 710	6 009	-3 094
Direct investment	2 176	3 905	6 157	5 324	6 277
Loans and credits, net	6 726	6 658	-7	3 902	1 073
Other, net	-138	-85	-146	127	107
German investment abroad, net	-8 648	-4 027	315	-710	-9 306
Portfolio investment, net	-2 021	532	4 037	358	-1 093
Direct investment	-3 194	-3 656	-4 988	-4 417	-4 774
Loans and credits, net	-3 027	-313	2 078	4 112	-2 832
Other, net	-406	-590	-812	-763	-606
Basic balance	2 249	9 374	18 019	23 933	18 316
Short-term capital:	16 047	4 323	-3 536	277	-19 748
(a) Banks	7 927	1 174	-420	-5 149	-9 733
(b) Enterprises	8 417	2 007	-3 592	5 175	-9 815
(c) Public sector	-297	1 142	476	251	-200
Errors and omissions	3 616	2 661	1 207	2 218	-474
Official settlements (deficit: —)	21 912	16 358	15 690	26 428	-1 906

<sup>1</sup> Excluding special transactions.

Source: Deutsche Bundesbank.

## *INTERNATIONAL COMPARISONS*

## BASIC STATISTICS : INTERNATIONAL COMPARISONS

				Australia	Austria	Belgium	Canada	Denmark	Finland	France	Germany	Greece	Iceland	Ireland	Italy	Japan	Luxem- bourg	Nether- lands	New Zealand	Norway	Portugal	Spain	Sweden	Switzer- land	Turkey	United Kingdom	United States	Yugo- slavia <sup>1</sup>	
POPULATION		Mid-1973	Thousands	13 132	7 521	9 742	22 125	5 027	4 643 <sup>2</sup>	52 177	61 967	8 972	212	3 051	54 888 <sup>3</sup>	108 350 <sup>4</sup>	350	13 438	2 932	3 961	8 564	34 730	8 138	6 431	37 930	56 026	210 404	20 960	
Net average annual increase		1963 to 1973	%	1.87	0.48	0.48	1.55	0.71	0.26	0.88	0.77	0.57	1.37	0.68	0.70	1.22	0.77	1.17	1.46	0.77	-0.46	1.06	0.68	1.09	2.49	0.43	1.07	0.95	
EMPLOYMENT	Total civilian	1973	Thousands	5 640	3 039	3 818	8 759	2 385	2 153	20 953	26 202	(3 320)	(88)	1 042	18 310	52 330	154	4 564	1 137	1 654	(3 109)	12 844	3 879	3 097	13 810	24 553	84 409	8 009 <sup>5 10</sup>	
	Agriculture			7.2	16.1	3.9	6.5	9.5	17.1	12.2	7.5	(34.1)	(15.9)	25.1	17.4	13.4	9.0	6.8	12.1	11.4	(28.8)	26.5	7.1	(7.3)	63.4	3.0	4.1	49.5	
	Industry <sup>6</sup>		% of total	35.5	40.1	43.3	31.3	33.8	35.7	39.3	49.5	(25.7)	(37.5)	30.7	44.0	37.2	48.6	36.2	34.7	33.9	(33.8)	38.0	36.8	(46.2)	15.1	42.3	31.7	50.5	
	Other			57.3	43.8	52.8	62.2	56.7	47.1	48.5	43.0	(40.2)	(46.6)	44.2	38.6	49.4	42.4	57.1	53.2	54.7	(37.4)	35.5	56.1	(46.5)	21.5	54.7	64.2	50.5	
PRODUCTION	GDP <sup>7</sup> per head	1973	\$ <sup>8</sup>	4 900	3 550	4 650	5 410	5 460	3 720	4 900	5 610	1 790	4 870	2 130 <sup>13</sup>	2 510	3 760	5 200	4 410 <sup>13</sup>	4 080 <sup>9a</sup>	4 780	1 250	1 750	6 140	6 190	540	3 100	6 170	792 <sup>13</sup>	
	GDP by sector:	1973		7.1 <sup>9 10 11</sup>	5.8	3.9	5.2 <sup>11</sup>	8.2 <sup>11</sup>	12.0	6.3	2.9	20.4 <sup>11</sup>	..	18.0 <sup>11 13</sup>	8.8	5.9	4.4 <sup>11 12</sup>	5.3 <sup>11 13</sup>	18.8 <sup>12</sup>	5.6	16.3 <sup>11</sup>	12.7 <sup>11</sup>	3.8	..	26.1	3.0 <sup>11</sup>	4.4	16.6 <sup>11</sup>	
	Agriculture		% of total	41.4 <sup>9 10 11</sup>	50.1	40.1	36.2 <sup>11</sup>	39.9 <sup>11</sup>	44.2	39.7	52.1	32.4 <sup>11</sup>	..	33.8 <sup>11 13</sup>	41.2	48.3	57.5 <sup>11 12</sup>	44.9 <sup>11 13</sup>	28.0 <sup>12</sup>	33.4	43.2 <sup>11</sup>	35.5 <sup>11</sup>	36.6	..	28.8	42.4 <sup>11</sup>	33.9	46.6 <sup>11</sup>	
	Industry			51.5 <sup>9 10 11</sup>	44.1	56.1	58.6 <sup>11</sup>	51.9 <sup>11</sup>	43.8	93.7	45.0	47.2 <sup>11</sup>	..	48.2 <sup>11 13</sup>	50.0	45.9	38.1 <sup>11 12</sup>	49.8 <sup>11 13</sup>	53.2 <sup>12</sup>	61.0	40.6 <sup>11</sup>	51.8 <sup>11</sup>	59.6	..	45.1	54.6 <sup>11</sup>	61.7	36.8 <sup>11</sup>	
GDP <sup>7 14</sup> annual volume growth		1973 1968 to 1973	%	5.6 5.1	5.5 6.4	5.4 5.5	6.8 5.2	3.9 4.7	6.0 6.8	6.0 6.0	5.3 5.1	9.4 8.9	6.2 6.3	7.2 4.6	6.4 4.3	11.0 9.5	7.5 5.2	4.2 5.3	4.8 <sup>9a</sup> 3.1 <sup>9a</sup>	3.7 4.5	7.6 6.4	7.4 7.0	3.3 3.2	3.5 4.6	4.6 6.2	5.3 2.8	5.9 3.6	.. ..	
INDICATORS OF LIVING STANDARDS																													
	Private consumption per head	1973	\$	2 850	1 870	2 810	3 080	3 050	1 910	2 913	3 000	1 200	2 990	1 370	1 620	1 910	2 780	2 430	2 410 <sup>9a</sup>	2 530	900	1 170	3 240	3 640	320	1 960	3 840	425 <sup>13</sup>	
	Public expenditure on education	1970	% of GNP	4.3	4.7	5.4 <sup>15</sup>	8.6	7.0	6.3	4.7	4.0	2.2	4.3	4.8 <sup>15</sup>	4.3	4.1	4.4	7.3 <sup>15</sup>	4.4 <sup>15</sup>	5.9	2.0	2.4	7.8	4.2	2.9	5.5 <sup>15</sup>	5.4 <sup>15</sup>	4.3 <sup>16</sup>	
	Dwellings completed, per 1 000 inhabitants	1972		11.1	6.4	5.4 <sup>17</sup>	10.6	10.0	10.8	10.5	10.7	14.0 <sup>10</sup>	9.0	6.9	4.7	16.8 <sup>17</sup>	5.3 <sup>12</sup>	11.4	9.3	11.1	3.4	9.6	12.8	11.5	2.8	6.1	11.3	6.4	
	Passenger cars, per 1 000 inhabitants	1971		314	177	212	321	231	163	260	239	30	222	140	209	100	296	211	324	206	72	81	290	233	4 <sup>12</sup>	219	443	42	
	Television sets, per 1 000 inhabitants	1972	Number	227	226	236	349 <sup>10</sup>	282	256	237	293	31 <sup>10</sup>	220	173	202	225	220 <sup>10</sup>	243 <sup>10</sup>	250	241	63	145	333	239	4	305	474	113	
	Telephones, per 1 000 inhabitants	1972		340	226	240	499	377	295	199	268	160	370	114	206	315	361	299	458	320	99	164	576	535	19	314	628	44	
	Doctors, per 1 000 inhabitants	1971		1.25	1.87	1.60	1.50	1.41 <sup>13</sup>	1.11	1.38	1.71 <sup>13</sup>	1.67	1.44	1.09 <sup>13</sup>	1.83	1.15	1.07	1.31	1.16	1.45	0.98	1.39	1.36 <sup>12</sup>	1.67	0.45	1.29	1.57 <sup>12</sup>	1.06	
	GROSS FIXED INVESTMENT <sup>14</sup>	Total	1968-72 average	% of GDP <sup>7</sup>	25.8 <sup>9</sup>	29.0	20.8	21.4 <sup>18</sup>	23.6	24.1	26.3	25.9	25.7 <sup>19</sup>	28.7	24.2	19.8	38.7	23.6	25.3	..	..	19.0	24.2	23.1	27.8 <sup>20</sup>	16.9 <sup>21</sup>	19.6	17.0 <sup>22</sup>	..
Machinery and equipment		10.9			12.5	8.8	7.9	12.1	8.9	12.0	12.4	8.2	8.6	12.2	8.4	32.1 <sup>23</sup>	..	10.5	..	..	8.8	12.8	8.6	9.5	5.8	9.5	7.0 <sup>22</sup>	..	
Residential construction		5.2			16.5 <sup>24</sup>	4.7	4.4	4.6	5.8	6.5	5.2	8.0	5.3	4.3	5.9	6.6	..	5.7	..	..	2.7	3.7	5.0	7.1	3.3	3.5	3.5	..	
Other construction		9.7			— <sup>24</sup>	7.3	9.1	6.9	9.4	7.8	8.3 <sup>25</sup>	9.5	14.8	7.7	5.5	— <sup>23</sup>	..	9.1	..	..	7.5	7.7	9.5	11.2	7.8	6.6	6.5	..	
GROSS SAVING		1968-72 average	% of GDP <sup>7</sup>	25.9	29.3	24.9	22.3	19.1	29.8	26.8	27.5	23.8	..	20.8	22.9	39.3	31.3	26.9	24.9 <sup>9a</sup>	27.8	22.0	23.1	22.8	28.9 <sup>20</sup>	21.5 <sup>21</sup>	19.2	17.5	..	
PUBLIC SECTOR <sup>26</sup>	Total current revenue	1973	% of GDP <sup>7</sup>	28.2 <sup>13</sup>	36.6	35.8 <sup>13</sup>	36.2	44.8	39.0	38.0 <sup>13</sup>	41.0	26.6 <sup>13</sup>	33.2 <sup>13</sup>	33.7 <sup>13</sup>	33.3	22.4	39.1 <sup>13</sup>	49.9	..	49.4	23.0	23.4 <sup>13</sup>	50.1 <sup>13</sup>	27.1 <sup>15</sup>	27.5 <sup>13</sup>	37.9 <sup>13</sup>	30.2	..	
WAGES/PRICES	Hourly earnings <sup>27</sup>	Annual increase 1967 to 1972	%	7.6 <sup>28 29</sup>	9.3 <sup>30</sup>	10.2	8.2 <sup>28</sup>	12.4 <sup>31</sup>	11.8	11.3 <sup>32</sup>	9.3 <sup>33</sup>	8.3 <sup>34</sup>	18.3 <sup>35</sup>	13.5 <sup>36</sup>	11.2 <sup>34</sup>	15.6 <sup>35</sup>	..	10.4 <sup>36</sup>	10.3 <sup>28</sup>	10.0 <sup>31</sup>	10.2 <sup>37</sup>	12.6 <sup>38</sup>	9.9 <sup>39</sup>	6.5 <sup>40</sup>	12.8 <sup>38</sup>	9.6 <sup>41</sup>	6.0 <sup>42</sup>	16.1 <sup>37</sup>	
	Consumer prices			4.2	4.3	4.0	3.9	6.2	5.5	5.6	3.8	2.6	13.3	7.6	3.9	5.8	3.9	6.2	6.5	6.1	8.6	5.8	5.0	4.3	10.5	6.6	4.6	11.3	
	GDP <sup>7</sup> deflator			5.8	4.4	4.6	4.0	6.4	6.5	5.5	5.2	2.9	17.2	9.3	5.0	4.8	5.9	6.6	6.9 <sup>9a</sup>	..	4.3	6.0	5.2	6.0	10.5	6.6	4.4	..	
FOREIGN TRADE	Imports <sup>43</sup>	1972	\$ million <sup>8</sup>	6 180	6 290	14 570	23 130	6 080	3 680	32 070	51 150	2 530	300	2 240	23 600	24 910	1 050	20 100	1 980	5 810	2 630	7 250	9 590	9 710	1 400 <sup>10</sup>	33 620	74 830	3 820	
	% of GDP <sup>7</sup>			13.2	30.9	40.9	21.8	28.6	27.4	16.4	19.9	20.7	39.5	40.6	20.1	8.5	77.8	43.4	23.1	38.3	32.2	16.2	23.2	32.6	10.9	21.8	6.3	23.2	
	Exports <sup>43</sup>			\$ million <sup>8</sup>	7 500	6 220	15 430	23 750	6 240	3 700	33 760	55 730	1 470	290	1 930	24 040	31 800	1 100	21 320	2 320	6 060	2 220	7 190	10 110	9 720	900 <sup>10</sup>	33 350	62 690	3 480
	% of GDP <sup>7</sup>			16.0	30.5	43.4	22.4	29.4	17.2	21.6	12.0	38.2	35.0	20.4	10.8	81.5	46.1	27.1	39.9	27.1	16.1	24.4	32.7	7.0	21.6	5.3	21.2		
BALANCE OF PAYMENTS	Current balance	1968-72 average	% of GNP	-2.1 <sup>9</sup>	-0.4	2.5 <sup>43</sup>	0.0	-2.1	-1.2	-0.2	0.8	-3.6	-4.2	-3.3	2.1	1													



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