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“Divorce Papers”: The End of the Social-Liberal Coalition (September 9, 1982)

On September 9, 1982, Economics Minister Otto Graf Lambsdorff of the Free Democrats submitted a “concept for a policy to overcome weak growth and to fight unemployment.” Based on free-market principles, it acted as a catalyst for the final rupture of the SPD-FDP coalition. For this reason, it is often referred to as the coalition’s “divorce papers.”

Concept for Policies to Overcome Weak Growth and to Fight Unemployment

I.

After improvements in important basic conditions (wage and interest developments, trade balance) and a slight rise in production in the first quarter of 1982, the economic situation and the preconditions for a rapid upswing have been worsening once again since the end of spring:

- Unexpectedly strong decline in foreign demand with stagnating and, as of late, regressive domestic demands
- Worsening of the business climate and of future expectations for the economy (test by IFO, Institute for Economic Research)
- Cuts in industrial production
- Rise in unemployment and increased insolvencies

Interest rates have started dropping once again after a temporary interruption; the rates continue to remain relatively high, however, despite the generally adequate monetary policies of the German Central Bank [*Bundesbank*].

This renewed worsening of the situation is partly a response to processes in the international sphere (prolonged weakness of the global economy, uncertain economic and interest-rate developments in the United States, U.S.-European controversies). The global economy as a whole is evidently experiencing a persistent stabilization- and adaptation-crisis. Inflation rates are still very high and unemployment is continuing to rise, serving to prolong the period of weak growth in North America and Europe considerably. By now, Japan has also been drawn into it. Weak growth worldwide, however, should not belie the fact that the present global economic difficulties are the sum of undesirable developments in individual countries and that an essential part of the causes of our domestic economic problems should be sought in our own country.

A primary reason for the instability of the German economy for years can doubtless be found in the widespread and still growing skepticism in our own country. The stagnation that has persisted for more than two years, the structural problems that are always emerging anew, the

growing unemployment, the large number of insolvencies, the growing awareness of international interest-dependency, and not least the conflicts and insufficient clarity surrounding the future course of economic, financial, and social policies have led to resignation and pessimism as regards the future within broad sections of the German economy. This obvious lack of economic and political confidence might also be an essential reason why, contrary to all previous experience, last year's strongly expanded foreign demand did not lead to an upward trend in the domestic economy,

[. . .]

The necessary overall program for policies to overcome the period of weak growth and to fight unemployment should especially include the following action areas (which are connected through their specific contextual relationship):

A. Growth and Work-Related Budget Policies

Guidelines:

– The maintaining and securing of the middle-term framework of expenditures for the federal budget

1983	1984	1985
250.5 billion DM	258.0 billion DM	266.0 billion DM
(+ 2%)	(3%)	(3%)

– Multifaceted reinforcement of growth- and employment-promoting expenditures (without follow-up costs, if possible) along with a simultaneous continued cutting of consumptive expenditures (restructuring)

– Balancing of unforeseen, unavoidable additional expenses through saving in other budget areas

– Balancing of deficiencies in receipts that arise, despite careful tax assessment, on account of the unusually long duration of cyclical fluctuations, to some extent also through temporarily higher net-credit intake

– Acknowledgement of the political leadership role of the federal government vis-à-vis the federal states and municipalities in the processes of consolidation and restructuring, but without any new hybrid-financing.

[. . .]

B. Investment and Performance-Promoting Tax Policies

The tax burden expected in the present, and even more in the future, doubtless plays an incredibly important role in investment decisions. At least as significant, however, are the expectations of the investor in light of future wage, work-time, social, environmental, legal, and economic and financial policies. To this extent, the effect of isolated tax measures should not be overestimated.

Guidelines:

– Avoid a rise in the macroeconomic tax load ratio; do not resort to parafiscal regulations (penny charges)

- Structure the tax system to be more performance- and investment-friendly by eliminating or reducing the following structural programs (reduces the urgency of concerted investment incentives):

[. . .]

- Widespread compensation of tax revenue shortfall (in connection with solving the aforementioned tax structure problems) by increasing, in particular, the value added tax, but not for the return of the secret tax increases (“inflation-induced progression effect”), which is necessary anyway
- Speedy determination of the context of tax measures, but step-by-step implementation within the framework of an advance schedule.

[. . .]

C. Consolidation of Social Safety and Employment-Promoting Social and Labor Market Policies Guidelines:

- Long-term consolidation of the social safety systems without raising contributions or introducing charges
- Stronger consideration of the principles of private pensions/savings and co-payment, as well as subsidiarity (decentralized care as far as possible and reinforcement of self-help by the family, such as in care for the elderly) in all areas of social policy
- Ease flexibilization of work time, but no reduction in working hours decreed or sponsored by the state
- Generally no further restrictions in freedom of movement of companies, and review of existing legal regulations with an eye toward their impact on employment.

[. . .]

D. Policies to Promote the Market Economy, Competition, and Economic Autonomy

The performance and innovative capacity of the economy is determined to a large extent by the functionality of competition and the diversity of business initiatives. The creativity, entrepreneurial daring, and adaptability of small and medium-sized businesses make them indispensable promoters of economic and social progress. For these reasons, special attention must be paid in the coming years to supporting economic autonomy and making risk-capital available.

Guidelines:

- Reduce unnecessary regulation and bureaucracy in all areas of the economy and shift more services previously bid for publicly to the private sector; maintain tight limitations on the postal service monopoly (no expansion into the terminal market).
- Despite the difficult economic and labor market situation, no easing of competition policies and no granting of maintenance subsidies. Continuation of the struggle against business concentration in order to avoid other financial rescue-cases like AEG.
- Improved material and immaterial promotion of economic autonomy, especially new commercial businesses.
- Reorientation of property policy through relatively strong promotion of participation in productive capital.

[...]

Source: Manfred Schell, *Die Kanzlermacher. Erstmals in eigener Sache: Otto Graf Lambsdorff et al.* [*The Chancellor-Makers. Speaking Out for the First Time: Otto Graf Lambsdorff et al.*] Mainz, 1986, pp. 27-47.

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