

Hamburg Institute of International Economics (HWWA) (Ed.)

Article — Digitized Version

Comments

Intereconomics

Suggested Citation: Hamburg Institute of International Economics (HWWA) (Ed.) (1966) : Comments, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 01, Iss. 12, pp. 4-5, <https://doi.org/10.1007/BF02922782>

This Version is available at:

<https://hdl.handle.net/10419/137663>

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COMMENTS

Export Promotion

Causes for Lacking Competitiveness

Exporters frequently complain about their lacking ability to compete. Various reasons are given for this, but the arguments are being put forward without seeing the quantitative importance of the various factors which impede competition. The French foreign trade consultants have now carried out an inquiry to remove these shortcomings. They have looked into the main causes why in 1965 French enterprises failed to secure 107 orders for capital goods to the total value of 3,000 million francs. They found that 55% of the orders were missed because French prices were too high; 20% could not be secured because credit conditions were unfavourable in comparison with foreign competitors; 12% were due to grave mistakes or the lack of flexibility on the part of the French company; and 5% were missed owing to the absence of a suitable selling organisation abroad.

It is regrettable that a similar comprehensive investigation as to quantitative causes has not been made in Germany where it is badly needed. It should determine to what extent German exporters are placed at a disadvantage. At the same time it could serve as a starting point for a systematic policy of export promotion and make it possible to assess in terms of volume the results that could be expected from new measures of promotion. Such a quantitative disclosure of the weak points in German exports would be more useful than the frequent, more or less generalised demands for better government support which are put forward under the pretext that the systems of export promotion in competing foreign countries are better developed than in Germany.

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Subsidies

Impediment to Development Aid

„Aid to underdeveloped countries has now become accepted by a majority of civilised persons in much the same way as Christian morality: an admirable thing in principle, of which it is ill-mannered to examine the application in detail.“ This quotation appears appropriate if we look at the contradictions in our development policy.

For the economic growth of the developing countries investments are needed which can frequently only be made if the required capital goods can be supplied from abroad. Though the importance of “portfolio in-

vestments”, gifts and credits from industrial countries or financial contributions from international organisations to the economic growth in developing countries should not be under-rated, the proceeds from those countries’ exports decisively determine the ability to import capital goods. The wealthy industrial countries are fully aware of these correlations and are in fact, when granting development aid, propagating its nature of “aid for self-aid”.

But what does actually happen? In the Federal Republic of Germany the consumption of sugar is largely met by domestic production. Subsidies, price adjustment levies for imports and the legal regulation of the price for sugar have stimulated domestic output. At the same time prices on the world sugar market have dropped to such a low level that they endanger the economic stability and development planning in many sugar producing countries. Undoubtedly these countries have to make more efforts to adjust their export structure to the trend of demand. It should, however, be realised that development aid such as has been granted so far becomes “crooked” if—as in the case of the sugar market—agriculture in industrial countries is being fostered by subsidies and hindrances to imports, while for a long time now a surplus has exerted pressure on world market prices. Thus the very means are being withheld from developing countries which they need for changing their economic structure and for the long-term growth of their economies. By adjusting development policy to the whole economic policy more sensibly, the same expenditure could secure better results.

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Export Stimulation

Japan—the Winner in South-East Asia?

While there is no convincing winner of the post-World-War II conflicts in the South-East Asian area in military-strategic and political respects, it seems as if there is a winner, at least in economic respect: Japan.

First the Japanese economy took huge advantage of the Korean crisis in 1950/53. Japan had lost about one fourth of its national wealth as a result of World War II, bombings of major industrial cities had destroyed most of Japan’s productive capacity and that part of machinery, which had remained able to produce, had been outmoded. It was only the originally planned American help for recovery and the necessities of the Korean war that prevented the Japanese bankruptcy and prostration. Serving as the main supply base of

the United States Japan got artificial dollar injections by which its economy was rebuilt, rationalised and modernised. In this way the Japanese economy quickly became a potent competitor in the world market.

At present the Vietnam war enables Japan to combat its economic difficulties effectively. After the so-called "Doubling the National Income Plan" at first had bestowed extremely high growth rates on the Japanese economy since 1964 there is a recession to overcome which is due to neglected structural changes. The deflationary situation represented by over-equipment and production surplus now is altered step by step by increasing exports which are—to an essential part—correlated to the Vietnam war. Besides the exports which are going directly to South Vietnam in form of technical non-war material, the comprehensive repairing and overhaul orders by the US-Army are of great importance. Moreover, the export orders indirectly connected with the war have to be reconsidered, too. Since the capacities of some branches of the American economy are concentrated upon war material production, Japanese products have growing chances on the American market.

Even if the influence of this export stimulation by the Vietnam war cannot be compared with the Korean boom—because of the different extension—, the Japanese economy again has the fortune of being a kind of supply base.

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Budgetary Policy

A Trip Wire for Governments

The Governments of Denmark, the Netherlands and the Federal Republic of Germany have recently fallen over their Budget proposals. The outward reasons were the plan of tax reform in Denmark, the programme of higher taxes in the Netherlands and the opposing views within the coalition Government about higher taxes and reduction in expenditure respectively in the Federal Republic. At a closer look certain similar features can be traced in the political crises of the three countries. All of them show some anachronism in their fiscal procedure.

The fiscal policy in Denmark suffers from an obsolete taxation system. The Government failed in its fiscally sensible plan to change over to an added value tax, to introduce the system of taxation at the source in respect of wage earners, and to do away with the provision of tax deduction.

The fiscal policy in the Netherlands and the Federal Republic is being hampered by the strict rule to achieve a balanced budget every year. In the Dutch budget proposals for 1967 the deficit could only be met by a number of "juggling tricks" the most outstanding of which was to speed up the assessment of liabilities to income and corporation taxes.

The budget proposals in the Federal Republic of Germany were from the start fictitious owing to an unrealistic estimate of the Government's share in revenue from the income and corporation taxes; to the omission of liabilities in respect of foreign exchange equalisation payments; to an unduly high estimate of revenue; and to a misjudgement of the capacity of the capital market.

The budgetary calamities in all three countries lead to the same conclusion: the whole budgetary policy will have to be modified if the political decision is to be maintained to give priority to the public tasks of the State over expenditure for consumption and investment. On the one hand, this requires a modernisation of the taxation system and, on the other, middle-term instead of long-term fiscal planning; relaxing the strict provisions for balancing the budget every year; assessing revenue truthfully; comparison of the cost and proceeds of government investments; and eliminating all private interests in preparing the budget.

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Coffee Economy

Diversification Not By Trial and Error

The coffee growing countries want to improve, and this means diversify their production structure. A working group of the International Coffee Agreement recently discussed the matter in Washington. The diversification of coffee growing has internal and external aspects. Internally it involves a change in the agricultural output structure; externally it contributes to the diversification of exports; and developing countries need both. Serious is apparently the question how to secure the necessary finance. One speaks of establishing a diversification and development fund within the framework of the Coffee Agreement. Unless all experience deceives, the coffee growers, as the "victims" of diversification, will ask for help from their governments. And looking at it long-term, this is perhaps the cheaper procedure within the total economic frame ... presumably cheaper than costly cornering and stock-piling. The external trade of the coffee growing countries, and this also concerns their relations with importing countries, can only benefit from a diversification of output, provided it is possible to replace coffee by those cash crops the chances of which on the world market can be regarded as promising in the long run. This, it is true, is not quite easy in the agricultural sector. All efforts towards diversifying a coffee growing structure should therefore begin with market- and product studies to find out where genuine chances really exist. But as urgent as it is to reduce the strong dependence on coffee exports, as necessary it is to warn against an ill-considered "wild" diversification in the trial-and-error way, if new products are to take over successfully the rôle of coffee as a foreign exchange earner.

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