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Stabilisation through Foreign Trade

In most countries, in the postwar period, among the main targets of economic policy the achievement of foreign trade equilibrium has been subordinated to the goals of full employment, economic growth and stable prices. Normally, very extreme or long-lasting imbalances are necessary to focus the attention of economic decision-makers upon this problem. It is only when balance-of-payments deficits cause perceptible shrinkage of currency reserves or when surpluses become a source of marked inflationary tendencies that politico-economic measures are strived for.

We first need to have a clear concept of what is meant by foreign trade equilibrium. The objective of "balance of payments in equilibrium" is subject to very different interpretations. It depends what the evidence is needed for, whether the arguments are based on one of the many broader or narrower definitions available: the net position on goods and services, current balance or basic balance. In discussing the relationships between domestic and foreign trade and payments, it is usually the longer-term equilibrium of the foreign exchange balance which is meant, since the results of all financial transactions and those in goods and services conducted between residents and foreigners are reflected in this.

Transactions in goods and services have a direct effect upon the economy's income flow. Due to the closely-knit trade relations within the European Economic Community, the constant fluctuations of such dealings are an important factor in stabilising national business trends. We have seen this repeatedly in the last few years with the cyclical back-and-forth effect in the intra-European market. In 1964/65, for instance, business was depressed in France and Italy, but West Germany was in the throes of a boom. During this recession, French and Italian imports from the Federal Republic decreased because of the income mechanism, whereas these countries' exports to West Germany increased. Both these factors helped to bolster employment levels in France and Italy and to inhibit excessive demand in the Federal Republic. Since 1966 this development has been reversed, with a progressive revival of trade in France and Italy and regressive tendencies in West Germany, in line with the development of the flow of transactions.

Thus the fact that business cycles in major West European countries do not develop concurrently causes—via the foreign trade mechanism (changes in national income and consequent changes in the flows of transactions)—the employment situation to be stabilised time and again in a country with a weak market position, whereas in a boom country the inflationary rise in prices is eased. Considered from the aspect of cyclical policy, therefore, such imbalances on foreign trade account are to be welcomed.

The German Council of Experts on Economic Development counters this thesis; this Council asserts that surpluses in these transactions in goods and services in a country going through a period of recession represent an involuntary transfer of resources abroad. From the point of view of an in the long-term stable economic growth-rate, it would be more effective were such funds to be invested at home. However, this argument ignores two essential points.

To begin with, large surpluses which have occurred because of dissimilar cyclical fluctuations are always of a temporary nature only. In subsequent phases these surpluses will always decrease. A large short-term surplus does not endanger growth and it is therefore unnecessary to take politico-economic steps directed at the longer-term regulation of the flows of transactions. Secondly, the arguments presented by the Council of Experts disregard the fact that politically motivated financial transactions—which also represent a transfer of funds abroad—are one of the declared objectives of Germany policy. Assistance to developing countries and reparations are only feasible if compensated for by surpluses in transactions in goods and services. If such political objectives are to be taken into account, it is equally impossible to correct the flows of transactions.

Hans-Jürgen Schmahl