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Article — Digitized Version

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Intereconomics

Suggested Citation: Dohnanyi, Klaus (1969) : Five economic imperatives, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 04, Iss. 10, pp. 319-322, <https://doi.org/10.1007/BF02926282>

This Version is available at:

<https://hdl.handle.net/10419/138266>

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Five Economic Imperatives

by Dr Klaus von Dohnanyi, State Secretary, Bonn *

Development policy should in my opinion be governed by five basic economic rules. These rules were valid in the past, are valid now and will remain valid for the coming Second Development Decade. As the world changes and as the world-wide development policy achieves further successes, these five rules will make fresh and different demands on us, but basically they will remain unchanged.

Imperatives of Development Policy

Development aid presupposes first of all that we are in a position to help. The economic productivity of the industrial nations must continue to grow. This is the first imperative.

The second imperative is that by means of development aid the productive capacity of the developing nations, i.e. their growth rate, is maximised. Naturally, such a policy must be supported by the developing countries' own efforts if it is to be successful. But our aid must obtain the best possible results.

The third imperative is in my opinion this: The industrial nations must be prepared to face the logical economic conclusions from the industrial growth they have helped to generate in the developing countries. They must give them the chance of expanding their trade.

The fourth imperative follows from the third: The industrial countries must open up their markets, but, in order to safeguard their own economic capacity, they must at the same time insist that the developing countries keep open their markets for the products of the industrial nations.

Finally, the fifth economic imperative is that the industrial nations must themselves draw the necessary economic conclusions from the fact that growing productivity in the developing countries means more competition. It will be for them to

make constant adjustments to the structure of their own industries so that the goods newly arriving from the developing countries are assimilated to the benefit of all concerned.

Growth of the Industrial Nations ...

Allow me to add a few words in explanation of the first rule—the essential need for the industrial nations to develop their own economies. The experiences of the most recent past have made it abundantly clear what effects the growth of the German economy can have on world trade and on the trade of the developing countries in particular. In 1966/67, the year of the recession, German imports from the developing countries decreased by 3 p.c. in comparison with the preceding year. During that period total exports of all the developing countries to the world at large increased by no more than 3.5 p.c. In 1968 when the recession in Germany and certain economic difficulties in other countries had been overcome, overall exports by the developing countries rose by 8 p.c. and those to the Federal Republic by 13.7 p.c.

From the financial point of view, too, the developing countries should be highly interested in a growing Gross National Product, particularly after the Second World Trade Conference. The following calculation will serve to illustrate this point: The GNP amounted in 1968 to DM 528,800 mn. According to the recommendation of the Second World Trade Conference 1 p.c. net of that amount should be made available as aid or roughly DM 5,290 mn. Now, in 1969, the German GNP is expected to increase by roughly 9 p.c. compared with last year. In the course of the next few years until 1973 the German economy is expected to

* Excerpts from a speech he made at Bad Godesberg on June 26, 1969, before a Forum of the Friedrich Ebert Foundation on the subject of "The Second Development Decade — a Chance and an Obligation for Germany".

achieve an average growth rate of 6 p.c. so that by 1973 the German GNP may well reach DM 700,000 mn. This would mean a nominal rise of some 33 p.c. in comparison with 1968 with the result that by 1973 German net aid commitments would already exceed DM 7,000 mn, or about DM 2,000 mn more than in 1968.

... and of the Developing Nations

As for the second rule concerning the need to maximise productivity in the developing countries, I admit that economic growth cannot be the sole aim of those countries. For it would produce a situation which George Papandreou once described in the following words: "The figures flourish, but the people suffer." Such a situation is not what we want. And yet, it is no use blinking the fact that successful development requires in the first instance investments, and investment always means refraining from consumption.

But here we are faced with yet another problem, the complexity of which can probably be realised only by those who have practical experience in dealing with such questions. In pronouncing judgment on the merits of individual capital aid projects, the industrial nations or also the international organisations lay down, whether they like it or not, an economic policy in the widest sense for the countries they wish to help. The responsibility we thus assume is immense—much greater than is generally realised. In my opinion, we could take on this responsibility during the Second Development Decade with a much easier conscience, if we managed to become better acquainted with the prerequisites and the conditions for economic growth in the developing countries. These questions have been the subject of the intensive debate among scientists for the past twenty years. Reduced to a much simplified formula these discussions in trying to find a solution have proceeded from an explanatory variable "lack of capital" to an explanatory variable "deficiency in education" only to arrive at an almost fatalistic variable, called "socio-psychological growth prerequisites". The studies of McClellan about the performance factor, which one might also call the statistically measurable ambition, and those by Everett Hagen about the theory of social change in fact plainly show the limits within which purely economic aid is effective.

The Training of Political Management

At the Ministerial Council for Economic Cooperation, an interesting discussion took recently place. I threw into the debate a fourth variable by pointing to the different levels of political management in individual developing countries of comparable geographical and social conditions. I thought we should go into this problem more

thoroughly, and the Council seemed to agree with me. We know from our own experience to what extent an imperfectly expert political management can curb or even arrest developments. The sloppy way—if I may say so—in which the Federal Republic was allowed by its political leadership to slither into the recession of 1966/67 was a telling example of what I mean.

If I may be allowed to make this profane comparison: less developed countries suffer from the same typical handicap as do small firms in comparison with large concerns. Within their limited means they must take economic decisions with even greater care than is necessary in the case of large enterprises. This means that because of the even more serious consequences of the decisions taken, they should really have a better political management, their leadership should be more flexible as well as more careful than that of the industrial nations. But nowadays rather the reverse is the case. I am well aware that improvements in this field will be very difficult to introduce. But precisely because of these difficulties we should, in my opinion, devote special attention during the coming Development Decade to the technique of political management in the developing countries, and give these problems priority within the framework of our Technical Aid programme. For only if the industrial nations find in the developing countries highly qualified, knowledgeable partners to deal with, will they be able to employ the limited means responsibly, efficiently and in accordance with the informed wishes of the countries themselves. Only thus will they comply with the second of the five rules—maximisation of growth in the developing countries.

Opening of Frontiers in the Industrial Countries ...

Increased productivity in the developing countries—and now I come to the third rule—is closely linked with the opportunity they are given to supply the markets of the industrial nations.

Even in Germany there regrettably still exist restrictions against such imports which should be abolished in the coming Decade. Some of these barriers were lowered as part of business activity policy decisions taken by the Federal Government. At the same time the still existing quotas were increased by 20 p.c. In addition, a "voluntary restraint" agreement was rescinded. But we shall have to pursue this course of action more energetically in future.

Our obligation to pursue such a policy during the Second Development Decade does not stop at our own frontiers. For it is also part of the German contribution to the Second Decade to press inside the EEC for a liberal trade policy, not only in the industrial sector but also as far as trading in farm produce is concerned. Liberali-

ty in trade is not a policy a nation can pursue on its own; to be effective it must be adopted by other countries to the same extent. In GATT and at the World Trade Conference we should put our weight behind a policy that will open up markets for the products of the developing countries.

The granting of preferential customs duties is also part of such a policy. Such preferential treatment constitutes a temporary measure in favour of the developing countries. Germany was one of the first countries to welcome this concept. For without special measures in their favour the developing countries will not be in a position to match the superior marketing techniques of the other countries and break into the world market. The preferences must—and are intended to—give the developing countries a start in the competitive race against the products of the developed part of the world. Negotiations are continuing in the OECD as to the kind and extent of such preferences. These discussions in the OECD should enter the decisive stage in a few weeks' time when all the lists of requirements will have been tabled. The matter will then be taken up again towards the end of the year by an international conference on a wider scale. The Federal Government must do what it can to ensure that these offers by the Western industrial countries become something more than a mere gesture. For this reason the Federal Republic has agreed to pragmatic solutions also in the sphere of primary products. These solutions range from mere market research for primary products to international study groups and include special agreements on primary products. At present consultations are going on to explore for instance the possibilities for an international cocoa-agreement.

... and in the Developing Countries

Such a trade policy presupposes on the other hand that the markets of the developing countries are also essentially kept open for the prod-

ucts of the industrial nations—and here I come to my fourth rule. Open not in the form of mutual preferences, but in such a way as to promote the division of labour on the world markets by all concerned, and this notwithstanding the undeniable need possibly to protect for a certain period infant industries in developing countries. For this is in the interest of both sides; the markets of the developing countries are our markets of tomorrow only if the products of the developing countries become competitive: After all, our best trading partners are without doubt also always our strongest competitors on the world markets.

The German economy—of that I am convinced—will grasp the opportunities offered by the markets of the developing countries—opportunities that, given the right policy, will steadily become greater. The way is clearly marked: abolition of trade barriers by ourselves and other industrial countries, and gradually, as they become more productive, abolition also by the developing countries of their protective barriers; this, too, is part of those countries' own efforts. It is in their own interest because only thus can they ensure the effectiveness of the first economic rule—the preservation of the industrial nation's productivity potential.

Restructuring the Economy

Such a trade policy will inevitably require the restructuring of our own economy. The economies of most developing countries are today still much too narrowly based. More than 80 p.c. of their foreign exchange is earned by exporting primary products. The paramount task for the Second Decade is to broaden and to diversify production in each individual developing country. Moreover, steps must be taken to see that the products of the developing countries have access to the markets of the industrial countries. A higher degree of liberalisation by the industrial countries alone will not achieve this. What we shall have



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to do at the same time is to make corresponding adjustments to our own economic structure. This is the fifth economic rule of the development policy. Not only are such adjustments an absolute necessity from the point of view of a successful development policy; an economic policy such as we are pursuing—a policy aimed at stability and growth—also requires a flexible economic structure. In a dynamic economy, stability is not rigidity, but, on the contrary, mobility and change. It would mean giving up chances of further growth, if we did not employ the production factors labour and capital there where they yield the greatest possible economic return. A positive structural policy, for instance in the textile sector, is therefore in the national interest as it is in the interest of the developing countries. World-openness, that is a liberal trade policy allowing the world free access to the German markets and a positive structural policy, is the most effective weapon against the hydra of protectionism. This is why we are against a new agreement involving voluntary restraints on the part of the textile exporters, for such an agreement seems to us to be contrary to what we seek to achieve with our development policy.

Here we face our greatest task in the field of development policy. It is a matter of internal politics. In the long run, development policy is nothing but an attempt by the prosperous nations to increase the world's total wealth to such an extent that it becomes possible gradually to reduce their share in that wealth for the benefit of countries which are still poor today. This means that while our own prosperity will go on increasing, we must nevertheless be content to see a relative reduction in our share of the wealth of the world at large. This relative reduction is the real objective of a development policy which aims at making the world a more equitable place. I am sure that, politically, this process will generate great difficulties—social tensions are bound to result in the countries of the third world but also in the industrialised countries. "Poujadism" is an example for the kind of violent reaction which changes in the social and economic structures of the industrial nations are liable to produce all over the world. To cope with such reactions it is necessary here and now to awaken in the people a political awareness of the fact that prosperity and progress of other countries are also in the interest of one's own nation.

PUBLICATIONS FROM THE HAMBURG INSTITUTE FOR INTERNATIONAL ECONOMICS

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Octavo, 188 pages, 1969, DM 29.80

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