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Negative Impact Upon Hamburg's Economy

by Ernst-August Gramann, Hamburg

Prediction about future economic developments is a thankless task, especially when such a fundamental policy decision on economics as the DM revaluation has only just been taken a few weeks ago. Such an attempt becomes almost hopeless if other economic variables, both at home and abroad, also start to shift, and the prognosis of future quantitative indices, as well as indicators of structural changes, then grows highly tentative and hazardous. These necessary reservations must naturally not be forgotten in the case under discussion.

There were many pressing influences making the shift in the DM's exchange value imperative, and this also implies that the objectives at which revaluation aims are many different ones. For a foreign trade centre of Hamburg's importance it is relevant, however, that the principal effect which the policy decision of October 24, 1969, desires to achieve is the scaling down of the surpluses on German foreign trade account, through making German exports more expensive. Hamburg's export traders and Hamburg's port traffic handle about 13 to 14 p.c. of German total imports and exports. Moreover, there are certain trades predominant in Hamburg's economic life, including shipping, shipbuilding, and the work of the ports, which are bound to be affected most profoundly by any change in foreign trade volumes. This is the reason why changes in monetary policy and decisions affecting it will always be watched with particular keenness in Hamburg and will sometimes be judged differently from at-

titudes taken in regions that are situated far from the sea coast.

The Views of Export Traders

Export traders are justified in emphasising that the brief phase during which both an export tax of 4 p.c. and a higher-valued German currency led to an—essentially unwanted—double burden of 10 p.c. and more, in cases when export goods had already been shipped but not yet been paid for. Similar problems are resulting for importers. More highly significant is, however, the fact that, though clarification of trading conditions through revaluation will contribute to more certainty in the longer term, which is to be welcomed in the interest of overall economic equilibrium, this goes now hand in hand with considerable increases of wages and other costs. On the whole, export trading will be called upon to absorb not only prices that have been lifted by 9.3 p.c. through DM revaluation, but prices which will be adjusted upwards, because of additional cost increases, by between 12 and 15 p.c. In Hamburg, it is taken for granted that such increases cannot be passed on to customers in many foreign markets that have already in the past been fields of a fierce competitive struggle.

It is foreseen that, especially in overseas markets where competing nations, e.g. Japan, are now reaping important price advantages, and in the African Franc Zone where French devaluation and German revaluation have a cumulative effect, a sharp drop in trading income

will have to be accepted. The United Kingdom, too, can be seen to harden its competitive superiority progressively in its export to Commonwealth countries, some European states, Latin America, and possibly even the United States. In some of these areas, sterling devaluation, which took place in 1967, now at last begins to have a noticeable effect. Hamburg's export traders judge this deteriorating German position in international competition with great concern, especially because long-term prospects of German exports do not justify in the least the facile kind of optimism which some observers develop from their analysis of the trading figures of a brief period of three years only.

What Importers Have to Say

Representatives of Hamburg's import trade, on the other hand, are of the opinion that, during the foreseeable future, neither big price reductions nor significant increases of imports will occur. For this view, a number of reasons are adduced: German imports are much more dependent on the phases of the trade cycle than on price fluctuations, which means that they reflect investment activities and shifts in consumption. But above all it must not be overlooked in this context that several countries, especially those producing essential raw materials, have increased their costs and prices massively and continue along this upward trend. At best, the upward drift of import prices can only be slightly braked by German revaluation, and only in the long term — for many importers

will have to run down their inventories, others will have to serve supply contracts made in terms of German currency, or the expected updrift of the German DM quotation had already been discounted in advance when "futures" had been made in foreign currency at reduced exchange rates.

There is another, and not unimportant, effect of the DM going up in value: direct German investments abroad will now have to be written down in balance sheets by 8.5 p.c. in value. In many cases, this will greatly reduce the possibilities of granting credit, and one will have to wait and see whether this adverse effect will be compensated for by the fact that new investments abroad will now also cost 8.5 p.c. less than previously. Hamburg traders have always been in the forefront of those who underlined the need of stronger German engagements in foreign investments.

What It Means for the Shipping Trade

Shipping companies are, of course, also affected by this shrinkage of their foreign investments' value. In addition, they will have to write down the value of their assets locked up in their ships, because ships are bought and sold mainly in international markets and for foreign currencies. Freight income of most shipowners, likewise, is

earned in foreign currencies, whilst most of the costs have to be paid for in DM. Reliable estimates lead to the expectation that a revaluation of 8.5 p.c. will cause a reduction in trading income of about DM 200 mn, which will slash profit margins, that have been very narrow in the past, down to actual net losses.

Of similar severity will be the impact of DM revaluation on the shipyards. Orders for new construction and for repair work of foreign owners can now be awarded to the yards of competing shipbuilding nations at prices which undercut those of Germany by 9.3 p.c. As is well known, German shipyards have had to report recently an almost non-existent order flow, whilst there is not a chance yet that State subsidies to shipyards will soon be harmonised, so that the cries for help which can be heard from German shipowners and shipyards take on a very realistic sound.

Last but not least, German revaluation will force Hamburg, as a port and as a junction of international trade, to face very difficult problems. It is possible that the currents of trade may shift, for example, to the ports on the estuary of the Rhine, because they can now offer their services at rates that are by 9.3 p.c. cheaper. For the exporters and importers in the German hinterland as well, the share of freight charges represented by

travel on foreign routes will drop and the share of German routes —e.g. to Hamburg—remain unchanged. Hamburg's competitive strength relative to foreign ocean ports can but suffer from this.

Policy of "Stop and Go" Will Not Help

This list contains only some of the major problems which have to be tackled in the near future. It will not be an easy task. In the view of the business community of Hamburg, it is, however, even more important to spread the knowledge that a state of economic disequilibrium cannot be corrected by a policy of "stop and go" at the expense of the export trade only. It must be remembered that German exporters could never be successful enough during the year of the 1967 recession in supplying valuable pump-priming to the West German economy, whilst only 24 months later, their efforts are being turned off again like a water tap. It gives therefore rise to serious concern that there is an inclination to manipulate German foreign trade, under short-term considerations, in line with the fluctuations of the trade cycle, whilst most people lack any long-term views on the German position in world markets. Experiences of other nations should be sufficient proof that it is inadmissible to make a short-term outlook the yardstick and foundation of foreign trade policies.



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