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Exports and Economic Growth

by Dr Wolfgang Michalski, Hamburg

Net exports of goods and services of the Federal Republic of Germany in 1969 were DM 15.6 bn. Although this figure is 2.8 bn lower than that of the preceding year, it is only 0.6 bn behind that of 1967, the year of recession. Thus, related to the gross national product, it is in terms of GNP approximately one percentage point higher than is in the Government's opinion compatible with balance-of-payments equilibrium. In the light of this information it can hardly be understood that a controversy about the last revaluation of the D-Mark should have gone on for nearly a year.

Neomercantilistic Export Ideology

When, however, analysing the interdependence between exports and economic growth under the special conditions prevailing in the post-war economy of West Germany, it becomes evident that the neomercantilistic export-ideology, which nowadays seems to be widely spread in the Federal Republic, has by no means only emotional roots. In view of the fact that the fundamental decision concerning the economic system was taken already before 1953, it appears that the major other causes of the remarkable economic growth in West Germany during the past fifteen years are attributable to the uninterrupted rise in the internally effective gross demand, on the one hand, and, on the other, to particularly favourable conditions for an increase of the production potential of the country's economy.

With regard to the development of the gross demand, it is clear that exports must have played a prominent part in the economic growth, both in view of their high average rates of increase and their considerable share in the effective demand. With an average of 12.5 p.c., the increase of exports was higher than that of any other component of final demand. Since 1953 the average share of exports in the total demand in West Germany amounted to 18.2 p.c. The importance of exports

for the growth in respect of the development of demand is also high-lighted by the fact that, especially in cyclical slow-down periods, exports have contributed more towards stabilisation than any other component did. Owing to opposite developments of market conditions in countries which are important business partners of the Federal Republic of Germany, the expansion of German exports was particularly great at times when domestic demand had markedly dropped. This becomes quite clear when comparing the figures of export growth rates, domestic demand and GNP with those of the preceding year. In all three growth cycles encountered between 1953 and 1965 the acceleration of exports was greater than that of domestic demand and GNP. In view of the fact that exports did not only prevent a probably even greater recession of the actual total monetary demand, but, to a certain extent, even provided the spark for initiating the next boom, exports have definitely had a stabilising effect, at least in the cyclical slow-down phases.

Importance for Economic Growth

The importance of exports for the economic growth in West Germany is even more obvious from the effects on the development of the economy's production potential. Exports offered essential incentives for increased private investments and thereby represent one of the reasons for the rapid growth of the capital stock. Until full-employment was reached in the mid-fifties, exports did not only directly but also indirectly contribute to speed up utilisation of the available labour force. Moreover, when bearing in mind that more than 75 p.c. of the German exports are accounted for by goods which, in statistics, are shown as products of the basic-material and producer-goods industries as well as of the capital-goods industry, it would appear that the increase in the economy's productivity was also largely due to exports.

Calculations recently carried through have shown that in the past one and a half decades roughly 53 p.c. of the annual increase of the real GDP must be attributed to the increase of the total economic productivity. Roughly 80 p.c. thereof are due to the effects of technical progress made by specific sectors, whereas a bare 20 p.c. are the result of structural sectorial changes. As far as the technical progress made by specific sectors and the change of the production- and input-structure in the Federal Republic represent a reaction to the rapid increase of demand and the changed demand structure of national economy, the following trends show a further connection between increase of exports and economic growth:

☐ The above-average increase of exports led to a rise of the share of the demand for capital goods in the actual gross demand. Thus, exports are, to a great extent, the cause of the favourable productivity effects resulting from the changed production- and input structure.

☐ In most cases of the major German export industries, such as machinery, car-industry, electrical engineering, chemicals as well as iron and steel, such branches of industry are involved which, in their present optimum size, could hardly be utilised up to capacity by the German domestic market alone. It follows therefrom that exports also account for part of such overall economic productivity gains which result from the introduction of production methods, the rationalisation effects of which operate only in the case of large-scale production.

☐ As far as the expansion of the market leads to larger business units it is, apart from direct large-scale effects on production, probable that the rate of technical progress is increased by concentration enabling intensified research.

☐ Those productivity increases should be noted which, as a rule, occur when the age structure of the production plants is constantly improved, due to continuous large investments.

Indirect Productivity Effects

Furthermore, mention must be made of some indirect productivity effects of large export increases which depend on structural changes. In this connection the effects of demand induced by exports are concerned which again come to bear mainly in the fields of the basic-material and producer-goods industries as well as the capital-goods industry. When assessing the German industry's export dependence in 1968 on the basis of the input-output analysis, it appears that the German industry's direct goods export of DM 98.8 bn

requires an industrial gross production of altogether DM 161.9 bn. 77.6 p.c. of the total industry's gross production which depends indirectly on exports, are accounted for by the basic-material and producer-goods industries as well as the investment goods industry. From the fact that these figures ascertained by means of static analysis do not yet contain the German industry's investment-goods demand prompted by additional exports, it follows that the influence of export induced indirect demand is de facto still greater. Apart from this, it must be taken into consideration that in respect of private consumption the effects on income induced by exports have possibly contributed towards a comparatively rapid expansion of the demand for high-quality industrial consumer goods.

All these considerations indicate that during the past fifteen years exports, indeed, have most decisively contributed towards the considerable economic growth in the Federal Republic. However, some arguments against this thesis which point to the growth-inhibiting effects of great export increases, should not be left out of account. They are aimed at two directions. First, attention is drawn to the fact that the export development led to high balance-of-payment surpluses, so that domestic demand of importance from the growth aspect did not come to bear because of export-induced capacity bottlenecks and price increases. Secondly, it is pointed out that exports, after their rise during a depression, did not decline correspondingly in the subsequent boom. This called for more stringent contracting measures in economic policy than would have been necessary otherwise.

In view of the adverse effect which an export-induced restriction policy has on the economic growth, it must be stated that, in the period under review, a planned cycle-orientated fiscal policy did practically not exist in the Federal Republic. And the measures of the money and credit policy were—inter alia as a result of the high balance-of-payments surpluses—not effective enough to cause a marked slackening of the economic growth.

Exports vs Public Expenses

It is more difficult to refute the other argument which maintains that the economic growth in the Federal Republic would possibly have been even greater if the production potential had been utilised by public investments rather than by high exports. In view of the bottlenecks within the West German infrastructure, so it is argued, the economic productivity effect of governmental investments might have been greater than the pro-

ductivity progress that resulted from the high private investments partly induced by exports. Without having to take a decision whether the economic productivity effects of specific public expenses might have been greater than those of export-induced private investments, the question must be posed in how far, under the given economic and political conditions during the period under review, the alternative mentioned in this connection is realistic at all. This must be seriously doubted since large government investments could also have been made without restricting exports, if the political authorities had been prepared to arrange at an earlier date for the necessary reallocations of budget funds in favour of growth-promoting state expenditure.

In view of the fact that the scope for an extensive economic growth on the basis of an increase of the labour potential, or employment of labour, has more and more diminished in the course of the years, it will even be more important in future than it was in the past to safeguard the economic growth not only by making greater efforts to develop improved production processes but also by further changes of the production- and input-structure. Provided that the particularly export intensive basic-material and producer-goods industries as well as capital-goods industry within the West German economy continue to stand out for their above average productivity level, the economic growth in the Federal Republic will depend to a considerable extent on the question in how far the German industry will be able to increase exports also in the years to come. This, of course, cannot be done without the readiness of the political authorities not to delay unnecessarily the required and unavoidable structural changes, to bring the financial policy still more in line with the growth policy, and to adopt a more efficient policy of education and science.

True Problems of Political Nature

The market conditions for achieving this goal are not unfavourable since, in accordance with international economic growth being decisively influenced by industrial developments, it is not expected that the high income elasticity of demand for capital goods will drop in future. The true problems are now as before of a political nature. That is to say, if the further economic growth in the Federal Republic depends so greatly on a continued increase of exports, it will be necessary to cope with a problem which has not been solved in the past. This problem is an antinomy between the objectives of highest possible economic growth and price stability as well as balance-of-payments equilibrium, and it has to be considered

in connection with a world economy registering continuing price increases.

If the possibility of an export-induced economic growth is to be retained, and the other generally recognised economic targets, which have meanwhile even been legally codified, are to be realised at the same time, it will be necessary to favour the equilibrium of the balance of payments to a greater extent than was the case hitherto by promoting long-term capital exports and facilitating imports in the fields not yet liberalised. Moreover it will be inevitable to reconsider the prevailing attitude to revaluation policies. It should be recognised that steady and high, export-induced economic growth, coupled with full employment, price stability as well as balance-of-payments equilibrium, on the one hand, and retarded structural change, an income development as close to parity as possible in all economic sectors, as well as fixed exchange rates without parity changes, if possible, on the other hand, in a free international trade and with convertible currencies under realistic conditions can never be realised at one and the same time.

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