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Federal Republic — Export Nation No 1

Proud newspaper headlines are already telling the success story to be officially released at the end of the year: A number of revaluations notwithstanding, the Federal Republic will probably emerge from 1973 as Export Country No. 1. After the economic miracle and the "fräulein miracle" we now have our export miracle.

The word "notwithstanding" is crucial. It is often overlooked that German exports score higher in international comparisons because of the revaluations. The parity changes have helped us to show up in front. The word "notwithstanding" also betokens resentment that the Federal Government is going too far to placate envious rivals and foreign speculators and setting up new and higher hurdles by the revaluations. Despite all the efforts of industry, it is claimed, exports are bound to be hit and, highly dependent on exports as we are, the end will be disastrous.

It may however be questioned whether increasing export dependence is really inevitable. Undeniably it has its advantages for the economic development of the Federal Republic. In important growth sectors like the mechanical engineering, chemical, electrical and vehicle industries exports are needed to provide outlets for plants with the large capacities required for efficient operation and low-cost production. Besides, just the export industries are forced by the international competition to seek ever new innovations. They are the upholders of technical progress in the Federal Republic. Our exports are thus making a great contribution to the improvement of our standard of living.

Dependence of any kind however has great drawbacks. So has dependence on exports, especially for our economic stability which is in any case imperilled. Firms which effect half or more of their sales in foreign markets will be guided in their wages policy largely by the conditions abroad. To maintain their sales they must keep their competitive advantage — speedy delivery, high quality, excellent service. So they will be more willing to make wage concessions than firms working for the home market. If the wages in competing foreign countries rise as much as or more than in the Federal Republic, cost increases can be easily passed on through the prices. Leeway due to additional costs can, be-

sides, be made good out of the rationalisation gains to be achieved with the help of exports. Firms which are working for the home market must match the wages paid by exporters if they do not want to lose the best of their skilled workers. The overall rise of mass purchasing power eventually enables these firms also to pass on higher costs by higher prices.

In view of the high export quotas this correlation would be eminently relevant even if the balance of trade were in equilibrium, and floating and revaluations have so far failed to upset it. An aggravating factor in the Federal Republic is that it is continuously sending more goods abroad than it is receiving from outside. Although the DM has between 1969 and 1972 been revalued by as much as 24 p.c. against the weighted average of its trade partners, its export surplus rose in the same period by 30 p.c. The two changes in the parities since are unlikely to keep it from rising further in 1973 — to a record DM 25 to 28 bn. The home market will be structurally short of supplies, the imbalance between supply and demand has been aggravated. There are hardly any limits to the possible uprise of prices.

High export ratios are a threat to stability even if the prosperity does not continue. All important buying countries have currently a boom and thus exceptional need of investment goods in which the German export industries have been specialising to an increasing extent. A reversal of the boom conditions in the world would hit the Federal Republic especially hard. It would probably be impossible to avoid a considerable decline in employment.

So there is not really much cause for pride. Rather there remains the hope that floating and revaluations will gradually begin to act as a curb and at least impede the further heightening of the export intensity of our economy. It is also to be hoped that the changes in currency rates will at long last be complemented by a liberal trade policy. Their "import component" will remain ineffective so long as a protectionist shield guards the very sectors which are most likely to attract additional imports. Only when the Federal Republic has — under such conditions — also become Import Country No 1 shall we approach a solution of the problem.

Manfred Holthus