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Structural Problems of the Next Few Years

by Dr Dieter Schröder, Basle *

The Federal Republic of Germany will be facing in the next few years changes in its economic structure which, if not in their extent, in their effect on the employment situation will be without parallel in the post-war period. After fifteen years of nearly uninterrupted full employment, it is reasonable to expect in the medium term an over-all rate of unemployment of the order of 2–3 p.c. (0.5–0.7 mn).

Nobody is today in a position to estimate with any degree of accuracy the extent of the structural unemployment in West Germany, firstly because the new framework conditions have been effective for no more than two years and, secondly, because at present business trends and structural phenomena are inextricably intermingled. In trying to forecast future trends, we all tend to be influenced by the existing state of the business cycle: in boom phases, optimism reigns supreme; during a depression a sense of fear creeps over us.

Structural change means in the first instance no more than a shift in the relative contributions of the individual sectors of the economy to the GNP. How this affects the growth chances of these branches and thus the employment situation in them depends, *inter alia*, on the growth rate of the economy as a whole and on the way productivity develops in these branches. The situation on the labour market is further influenced by the domestic earning potential.

Demand for Labour

During the fifties GNP rose annually by just under 8 p.c. This meant that, in spite of considerable shifts, the increase in production was in all sectors markedly greater than the growth in productivity, the only exception being agriculture and a few crafts. The number of jobs in industry rose by 3.5 mn and that in the service sectors by a further 2.8 mn. In these circumstances it was possible to substitute new jobs for the 1.4 mn lost in agriculture, while reducing unemployment by 1.3 mn, although the earning potential rose in the same period by 3.5 mn.

In the sixties and early seventies (until 1973) the GNP growth rate decreased to 4.5 p.c. True, output continued to rise in almost all sectors (with the exception of mining and leather), but in some sectors markedly slower than productivity.

The result was that in addition to another 1.8 mn people becoming redundant in agriculture, a further 1.2 mn jobs ceased to exist in some important industries (above all in mining and textiles). The total number of available jobs in industry remained constant, whereas in the service industries they increased by no more than 2 mn. During the same period the domestic earning potential decreased, because of the age structure, by 2 mn so that an additional 2.3 mn foreign workers had to be engaged to meet the domestic demand.

The situation of the subsequent years until 1985 differs from developments so far in that now the negative aspects of the two preceding periods appear in combination. The GNP growth rate will decline further to 3 to 3.5 p.c. Output in the majority of industries will increase more slowly than productivity, in some even stagnate. The number of people employed in industry as a whole will therefore show a marked decline, and that in the service sectors will grow only at a very attenuated rate. At the same time, however, the age structure will once again change and more women will come onto the labour market with the result that the domestic earning potential should rise by 1985 by 1 mn.

Changed Framework Conditions

The reason for the changed situation in the demand for labour is that important *framework conditions* governing the demand for homeproduced goods, which until the early 1970s had remained relatively constant, have in the last few years undergone considerable, and in part even abrupt changes. Two of these changes affect *domestic demand*; they are:

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- ☐ saturation phenomena,
- ☐ a decrease in population.

To this must be added four changes in the position of the Federal Republic of Germany in the field of the *international division of labour*; these are:

- ☐ foreign exchange corrections,
- ☐ the foreign labour policy,
- ☐ the marketing power of the raw material countries,
- ☐ the environment protection policy.

I can do no more here than outline these changes in broad brush strokes and must therefore oversimplify what is after all a complex situation.

The increase in the domestic demand of the fifties and sixties was characterized by a large backlog of demand for housing and consumer durables; it was intensified by an, admittedly slow, but nevertheless constant population growth. For most consumer goods there are now unmistakable *signs of saturation* (in housing, cars and electrical household appliances). The growing volume of first-time purchases is now substituted by replacement orders which make for a stagnating and highly vulnerable market. What makes the situation worse is that the *population* is once again slightly declining. The change in the population trend alone accounts for a diminution of the annual rate of growth in the domestic demand by about 1.5 p.c.

International Division of Labour

Until the end of the sixties the increasing undervaluation of the D-Mark caused many firms to believe that the Federal Republic was a favourable location long after this ceased to be the case. *The corrective adjustments in the foreign exchange rates* since 1969 have been forcing managements to dismantle unrealistic export structures. Primarily affected are the sectors whose competitiveness was mainly due to the relative cheapness of their mass-produced goods, i.e. sectors working with fully matured technologies and either unskilled or semi-skilled labour. Less or not at all affected are sectors or firms whose international competitiveness rests mainly on quality, i.e. those whose products or production processes are technologically very complicated, requiring a highly qualified labour force or those who depend on an intricately interconnected supply network.

The reaction to the corrective adjustments in the exchange rate was delayed by the freedom of movement granted to foreign guestworkers. Their

number increased from 1 mn in 1968 — the last year before the wave of revaluations — to 2.6 mn in 1973, particularly in those sectors which had been hit hardest by the corrective currency adjustments. Meanwhile the attitude towards the free movement of the foreign workers has considerably changed, in the countries supplying them as well as in the host countries, for it prevents or delays capital following labour.

The rise in oil prices is symptomatic for the *rising market power of the raw material countries* in the international competition for good locations for raw material processing plant; the higher oil prices have given them the necessary means. In addition, the difference between production cost and world market price gives them competitive advantages. Scarcely threatened are however firms of the basic industries whose production processes are technologically complicated, requiring close links between production and research or which depend for their smooth functioning on an intensive and costly network of deliveries.

On the other hand, what helps the shifting process along is the growing *ecological problem* at home and the public's increasing awareness of it. Because of the restricted space of the Federal Republic and owing to the already high concentration of factories disposing of noxious substances, even very strict regulations may frequently not be sufficient by themselves to keep their deleterious effects on the environment within tolerable limits.

Worldwide Effects

Against this background the *new trends of the international division of labour* can be summarized in the following, again somewhat simplified form:

☐ *The raw material countries*, and particularly the OPEC countries and among these again especially the densely populated ones (like Iran, Algeria, etc.) will gradually begin to participate in the processing of some of the world's raw materials by taking over some of this work from the industrial countries. However, to be able to do this they require once again plant and capital goods which they can only obtain from the industrial countries.

☐ *The advanced LDCs* like Spain, Mexico and Brazil which, thanks to the by now fully trained former guestworkers, will soon be joined by the Eastern Mediterranean countries, will participate more intensively in the worldwide production of consumer goods — again at the expense of the industrial countries. For this they also need capital goods which they can initially obtain only

from the industrial countries (though they may later make them themselves).

□ There remains still unsolved the problem of the "poor" *developing countries* (among them in particular India, Pakistan and Bangladesh) whose situation will become worse still because of the raw materials becoming dearer and food scarcer.

For the *fully developed industrial countries* the situation has two negative and one positive aspect. The negative aspects concern the above-mentioned transfer trends for consumer goods and basic industries; the positive aspect opens a vista of worldwide expansion of the market for plant and machinery. Whether positive and negative aspects will balance each other out is another question. In the short run the negative aspects should prevail, for the increasing investments in the two groups of countries are partly being compensated for by a reduction in investment programmes at home. In the long run, however, the positive aspect should become preponderant. The transfer trends give rise to strong economic growth in the countries affected and stimulate effective world demand for those goods for which the industrial countries obtain locational advantages or at least suffer no disadvantages. In other words: Computers, pharmaceuticals and entertainment electronics are most readily sold in developed countries. In fact, the industrial countries' biggest and best customers are other industrial countries. For Germany this is cold comfort: The negative aspect is predominant during the very phase in which the domestic earning potential is on the increase, whereas the positive aspect gains in importance when (after 1985) the domestic earning potential decreases once more.

Employment Trends by Branches

In attempting to quantify *the effects on individual branches* of industry, one must consider not only the order of magnitude of shifts in the demand structure but also the possible pace and extent of such shifts, variations within branches and, finally, the effects of the inter-industrial supply links. The results of our prognostic attempts — we, too, can only weigh up prospects, not prophesy — may broadly be summarized as follows¹:

Suffering from a *decrease in employment* will be mainly:

□ *Construction* (– 20 p.c.): Compared to the 1975 level there will be stagnation and even recession in the house-building sector; the construc-

tion of public buildings will decline severely and that of industrial plant slightly. Prospects for the finishing trade are relatively good on account of the modernizing of old lodgings.

□ *Leather, Textiles, Clothing and Fine Ceramics* (from – 30 to – 35 p.c.): Slower growth of domestic demand. Deterioration in the foreign trade position on account of the above-mentioned transfer trends for consumption goods, held in check by protectionist measures on the EC-level. Stagnation in the leather and clothing branches with the possibility of downward deflections for leather and upward deflections for clothing.

□ *Iron, Steel, Non-ferrous Metals, Paper and Pulp* (– 20 p.c.): Decelerated growth in domestic demand and a gradual deterioration of the net export position; a much slower growth rate in domestic output with productivity continuing to rise.

□ *Motor Vehicles Construction* (– 30 p.c.): Fewer motor cars on account of the stagnating home market and a deterioration of the net export position, ground being lost to the USA. Increased output of commercial vehicles, but productivity in this sector falling appreciably.

The following sectors will continue to *increase their labour force*:

□ *The Chemical Industry* (+ 10 p.c.) and the *Plastics Processing Industry* (+ 30 p.c.): The domestic demand is still rising for several reasons: Pharmaceuticals, cosmetics and man-made fibres are still increasing in importance, while raw materials are becoming scarcer or dearer, and as the possibilities of varying the composition of chemical primary products are far from exhausted. However, the increase in the home demand will be held in check somewhat because of the slower growth of production in the building and automotive industries. Because of the intensive research and the close supply links that exist between different stages of the production process any transfer possibilities are very restricted. Therefore, these industries will continue to be among the leading growth sectors, even if their annual growth rates will decline from 10.5 p.c. in 1960/73 to 6.0 p.c. in 1973/85 for the chemical industry and from 15 p.c. in 1960/73 to 7.5 p.c. in 1973/85 for the plastics processing sector. The slow growth in the number of people employed by the chemical sector is due to the steadily high increase in its productivity.

□ *Mechanical and Electrical Engineering* (+ 12 p.c.): The growth rate of domestic demand for machinery should decrease slightly, while that for electrical engineering products should drop more strongly. In the field of electrical engineering the demand for electrical household appli-

¹ I confine myself in the main to industry with special attention to job development. In brackets are always the expected percentage changes in the number of employed for the 1973/85 period, i.e. without taking account of the cyclical recession of 1974/75.

ances will increase particularly slowly. The trend will only be partly compensated for by increases in entertainment electronics. But electronics will gain a foothold in certain traditional areas of the mechanical engineering industry. The trends towards an easing off of activities will be counteracted by new markets in OPEC-countries, as well as in advanced industrial and state-trading countries, etc. The chances to step up productivity are smaller than in the chemical industry. In these circumstances the labour force should remain about the same.

Effects on the Structural Policy

The structural problems are essentially not due to a failure of the self-regulating system of the market economy as such, but to an omission on the part of the state to correct in time the framework conditions for the market (foreign exchange rates, its policy as regards foreign workers, environmental regulations, allocation of space). Problems of this kind cannot be circumvented by introducing *direct central regulation* of production structures in the place of self-regulation. What in my opinion is needed, is rather *long-term policy for framework conditions* and for the activities of the state a systematic and concerted planning. This planning would have to take into consideration the actual structural conditions of the economy and the direction in which it is moving; it will further have to provide the economy with the information it needs for future changes. This is an indirect direction of capital investment, but no more than a belated adjustment of the exchange rates is a (incidentally, very bad) direction of investments.

Whenever in the coming years transfers of locations threaten jobs, people will always be tempted to have recourse to *protectionist measures*. This would, however, not solve the problems, but simply delay their solution. For, the undervaluation of the D-Mark had a generally protectionist effect which in turn caused many of the problems which will now have to be solved (such as e.g. the creation of jobs in the German motorcar in-

dustry at the expense of the USA). Besides Germany's economy is so intricately interlocked with its foreign trading partners that these relations can be changed only qualitatively. It is therefore vitally interested in the principle of a free world market economy being upset as little as possible. If any countries are in need of protection at all it is the developing and not the highly developed industrial countries. If really necessary, it is just about thinkable that steps be taken designed to bring about some carefully measured *structural adjustment*.

If one cannot, or does not want to prevent transfers, would it then not be advisable not to promote them by, e.g., transferring chemical factories into the OPEC-countries and thus to create one's own competition? Such a policy would be very short-sighted. If Germany does not deliver such plants the USA or Japan will do it. Germany would in that case have lost out on both counts: a market for chemical products in as far as it would be supplied by the OPEC-countries, and the compensation market for investment goods.

This consideration points to a central aspect of Germany's future possibilities on the world market, i.e. the need for its exports industries to concentrate more intensively on goods whose production requires a high degree of new and complex technological know-how and thus a highly qualified labour force. Those goods will be mostly capital goods. The more quickly the OPEC-countries and the relatively advanced LDCs progress, the larger will be this market and the sooner shall we be able to overcome our structural unemployment. But this presupposes that the Federal Republic maintains and strengthens its position in this promising market, that research and technology create the necessary preconditions for such a development, never forgetting that in this field we are facing highly competent competitors in the USA and Japan. It also presupposes that the educational system turns out sufficient numbers of technically and managerially qualified personnel with the main emphasis on the middle range on the level of technical colleges.

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