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The Need of High Trade Surpluses

The re-incorporation of Western Germany as a state-entity into the pattern of the world's economic division of labour is a structural process. The upward trend from a foreign trade volume of barely DM 20,000 million in 1950 to one of almost 160,000 million in 1966 is irreversible. Depressed or intensified according to the relative price movements, the incomes' effects at home, and those abroad, will continue to make themselves felt in the level of imports in the first, and of exports in the second, case. Varying differences in the growth rates of the highly developed countries have their reciprocal "ratchet effects" against major economic setbacks in this development. The question remains whether these effects must necessarily result in a gap particularly in the Federal Republic of Germany, in a constant or a widening gap which, in the shape of a trade surplus from the exchange of goods, will counter-balance the other items in the over-all balance in the sense of a long term equilibrium of the balance of payments; the question is whether this will be so in 1966 as well as in the foreseeable future.

Within the scope of the balance of current transactions German Government imports will have to be offset, foremostly those within the defence budget. With its average of DM 1,400 million in the period from 1959 to 1962, and DM 3,200 million from 1963 to 1965, the import of defence materials will even in the event of stubborn negotiations hardly fall below DM 2,500 million annually.

Within the balance of service transactions, tourists' expenditure abroad more than anything else contributed to the debit. In 1965 it had grown to DM 1,500 million and will, also at more moderate growth rates of the national income, have further increased to at least DM 2,500 million by 1970. In the balance of unrequited transfers, reparation payments and deliveries have been on the decline since 1962. Based on the 1965 performance to the tune of DM 2,200 million they will by 1970 probably have been reduced to approximately DM 1,000 million. Home remittances by foreign workers in the same balance have gone up. In 1959, these transfers amounted to a sum less than DM 100 million. But in 1965 it had grown to nearly DM 1,700 million. In view of the structural extension of their countries' labour markets and investments in rationalisation during the 1965/66 phase of stabilisation, which have yet to show their effects, it can be taken as a realistic view to expect no more than a small increase from now on. These home remittances by foreign workers will in future hardly exceed DM 2,000 million. The size of the "other one-way transfer payments" is subject to substantial fluctuations. In 1960 it was about DM 1,000 million but in 1965 the total under this heading amounted to DM 2,000 million. By 1970 these transfers are expected to show an upward trend.

It is reasonable to leave the short-term payments of capital out of the picture because they are no more than an entity flexible according to economic conditions. In the public sector, it can be assumed that the long-term capital export of DM 1,500 million at present will grow by 8% annually and amount to about DM 2,000 million by 1970. Private capital export, which, for reasons of long-term favourable competitiveness, should grow strongly, would partly be offset by increased capital import, particularly in the form of direct investments. An assumed balance of between minus DM 0,500 and plus DM 0,500 million should cover all possibilities. The present volume of accumulated gold and foreign exchange of just about DM 30,000 million as the desirable average economic cash reserve is not under discussion as a compensatory potential factor. In order to meet all requirements, the commercial flow of goods alone should, in the medium term, show a balance of DM 12,000 to 13,000 million, and the total flow of goods one of 10,000 million. A further structural opening of the trade balance seems inevitable. As at least some of the debit items will stimulate exports and thus by themselves bring about a trend towards a certain balancing through additional export of German goods (tourists' expenditure, etc.), the exports must—at rising incomes' level—be steered back again to the competitive position during the years from 1959 to 1961 and 1963 to 1964. But one must bear in mind that then, as distinct from the period of the building-up of a foreign exchange reserve, there would—because of the aforementioned balancing items—be no money-creation effects bringing the Federal Bank up against complicated compensation problems.

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