Equipment Exports Contract, Crippling Domestic Capital Formation

WEST GERMANY

During 1976 the West German trade surplus narrowed considerably as the volume of exports stagnated while imports increased significantly in both volume and value terms. This situation, which was heralded in the Bundesbank's annual report as the West German contribution to recovery from the world depression, is only a share-the-poverty scheme to accommodate West Germany to a shrinking world economy. West German exports stagnated because demand is low for its major exports — basic goods and capital goods — and West German imports increased solely due to currency manipulations which made foreign goods cheaper for domestic purchasers.

Exports to the Third World have stagnated around 36 billion deutschemarks (DM) for the last three years, while exports to the Council for Mutual Economic Assistance (CMEA) countries and China have stagnated at 17 billion DM for the last two years. (Table 1)

Previous to 1974, there was a linear relationship between the amount of West German credit to these two areas and their purchases of West German exports. West Germany was directly financing the sale of its exports to them. By 1976 however, several factors caused exports to these areas to stagnate. Although DM credit to the Third World and Comecon countries rose (Table 2) in 1976, exports did not, indicating that although West German firms had booked some advance credit for these customers, a lot of it was not used as the CMEA, China and the Third World finally made cheaper purchases of capital goods and basic goods from other sources, such as France and Italy. The stagnating export situation of 17.4 billion DM for two years in a row to the CMEA and China is also due to these countries' desire to reduce their

Table 1
West German Exports to Six Major Markets

(IN BILLIONS OF DEUTSCHEMARKS)

	1972	1973	1974	1975	1976
TOTAL EXPORTS	149.0	178.0	230.5	221.5	256.1
WESTERN EUROPE	94.2	112.1	138.7	133.0	156.7
E.E.C.	69.9	84.0	103.0	96.0	117.0
THIRD WORLD	24.8	30.0	36.2	34.2	36.1
OPEC	4.6	5.9	10.4	16.7	20.6
C.M.E.A. AND CHINA	7.6	10.8	15.8	17.4	17.4
UNITED STATES	13.7	15.0	17.3	13.1	14.4

SOURCE: DEUTSCHE BUNDESBANK

Table 2
West German Trade with CMEA and the Third World

(IN BILLIONS OF DEUTSCHEMARKS)

	WEST GERMAN:			WEST GERMAN:		
	EXPORTS TO THIRD WORLD	IMPORTS FROM THIRD WORLD	CREDIT TO THIRD WORLD	EXPORTS TO C.M.E.A.	IMPORTS FROM C.M.E.A. & CHINA	CREDIT TO C.M.E.A. AND CHINA
1972	24.8			7.6	5.3	
1973	30.0			10.8	6.6	
1974	36.2	22.8		15.8	8.4	
1975	34.2	23.4	28.2	17.4	8.6	8.9
1976	36.1	29.2	32.4	17.4	10.9	10.9

SOURCE: DEUTSCHE BUNDESBANK

imports and credit from the West.

Exports to the United States (Table 1) dropped by 16 percent from 1974 to 1976 because of the U.S.'s slump in capital spending and the continued setback to imports of West German cars, which are no longer low-priced to U.S. consumers as the Volkswagen was in the 1950s and 1960s.

Although exports to the OPEC countries has steadily increased from 4.6 billion DM in 1972 to 20.6 billion DM in 1976, the rate of increase has slowed down, as OPEC countries pick up cheaper orders from other European countries.

Exports to Western Europe, West Germany's most important trading partner, increased by 17 percent from 1975 to 1976. But this increase occurred almost entirely in monetary value, as the DM appreciated. Any increase in volume was due to massive inventory restocking after a disastrous 1975, and to a few giant contracts for industrial projects that are one-in-a lifetime occurrences. These isolated giant contracts altered the order charts so disproportionatly that the economic statistics survey of the Bundesbank, Series 3, noted them as "anomalies" in their statistics for orders in 1976.

Orders for the first three months of 1977 (Table 3) show that this pattern will not change, since present orders are future exports. Foreign orders were spectacularly down in January and February — by 15 to 20 percent — although the index (1970 = 100) went up again in March (201), the average for the first three months of 1977, which is 192, is still far below the average for the last three months of 1976 (201). While the January-February 1976 balance of payments had a .6 billion DM surplus in West Germany's favor, the balance of payments for January-Februrary 1977 is a deficit of .6 billion.

This Bundesbank policy of encouraging a West German balance of payments and trade deficit has been building up for several years as the monetarist solution to stimulating other Western European economies. Britain, Italy and France have all been encouraged to make the best of the currency devaluations that were forced on them by dumping primarily steel and machine tools on the West German market (Table 4). Italy is the best example of this method of distributing the shrinking pie of world trade, for with a 40 percent currency devaluation against the DM since 1972, Italy has been able to create a trade balance with West Germany in 1976 for the first time in recent history, with its exports to West Germany of 18.8 billion DM matching its imports

Table 3

West German Orders to Industry

(1970=100)

		TOTAL ORDERS	DOMESTIC ORDERS	FOREIGN ORDERS
1976	SEPT	158	144	203
	OCT	157	143	200
	NOV	155	143	196
	DEC	162	148	204
1977	JAN	148	138	180
	FEB	148	136	188
	MAR	150	135	201

SOURCE: DEUTSCHE BUNDESBANK

Table 4

Currency Impact on West German Imports

(IMPORT FIGURES IN BILLIONS OF DEUTSCHEMARKS)

(DEPRECIATION BASE: 1972=100)

	LIRA DEPRECIATION AGAINST DEUTSCHEMARK	IMPORTS FROM ITALY	POUND DEPRECIATION AGAINST DEUTSCHEMARK	IMPORTS FROM BRITAIN	FRANC DEPRECIATION AGAINST DEUTSCHEMARK	IMPORTS FROM FRANCE
1972	100.0	13.8	100.0	4.5	100.0	18.1
1973	87.7	14.0	91.7	5.1	102.0	18.9
1974	77.2	14.9	89.8	6.2	100.0	20.8
1975	76.6	17.2	80.0	6.9	106.0	22.1
1976	60.9	18.8	66.7	8.5	98.0	25.8

SOURCE: DEUTSCHE BUNDESBANK

Table 5

Decline in West German Industrial Workforce

(MILLIONS OF EMPLOYEES)

1972	1973	1974	1975	1976
8.3	8.3	8.1	7.6	7.4

SOURCE: DEUTSCHE BUNDESBANK

Table 6

West German Industrial Production to Trade

(IMPORTS AND EXPORTS IN BILLIONS DEUTSCHEMARKS)
(INDEX BASE: 1970=100)

	INDEX OF ALL INDUSTRIES	INDEX OF MECHANICAL ENGINEERING	IMPORTS	EXPORTS
1972	105.9	97.5	128.0	149.0
1973	113.1	100.8	145.0	178.0
1974	111.5	101.5	179.0	230.0
1975	104.5	95.7	184.0	221.0
1976	111.5	95.0	221.0	256.0

SOURCE: DEUTSCHE BUNDESBANK

from West Germany of 18.9 billion DM. As the result of 33 percent devaluation in the British pound against the DM since 1972, Britain has been able to double its exports to West Germany in the same period, to 8.5 billion DM.

West German steel merchants have charged that 30 percent of all steel sold in West Germany in 1976 was imported, primarily from Britain and Italy. The president of the huge West German DEMAG machine tool firm charged at the Hannover Trade Fair recently that foreign firms are underbidding West German firms by about 30 percent — the approximate amount of Italian and British devaluations.

The collapse in world markets has taken its toll of domestic West German capital formation as well. Of the 1976 export total of 256 billion DM, approximately 139 billion were in investment goods, and another 66 billion were in basic and producers' goods. Approximately 75 percent of West German exports are capital or basic goods, making it the economy most dependent on increasing sales of capital and basic goods to finance increasing capital investment. Without this trade surplus from capital and basic goods exports, West German firms no longer have the base for new investments, and it is this trade surplus that has been destroyed in the last few years through the collapse of world markets and dumping on the West German domestic market.

Table 5 shows the effect of this destruction of West German industry's ability to invest. The industrial workforce has steadily declined since 1974. In the crucial mechanical engineering subsector, which alone accounts for 20 percent of all exports, the workforce has dropped from 125,000 to 100,000 today, outpacing the drop in the industrial workforce as a whole. In this same sector, firms have only been able to spend 2.5 percent of their total sales on Research and Development, and capital equipment age has creeped up from only 32 percent of all West German machine tools being 11 years or older in 1960 to 45 percent being that age or older in 1974.

As a result of this lack of investment, West German firms have been recently losing both foreign and domestic orders to foreign firms. The Hannover Trade Fair report of the Krupp steel firm complained that 20 percent more capital goods were imported in 1976 than in 1975. It also admitted that West German firms, which were investing an average of 35 billion DM per year up to 1971, have been investing much less since then. This investment gap is now 35 billion DM, and the report indicated that it could only be closed through increased export-generated investments.

Table 6 shows the effect of this lack of investment in the mechanical engineering sector. Although general industrial production, along with imports and exports for the reasons mentioned above, were able to register some improvement after 1975, the mechanical engineering index actually showed a slight decline from 95.7 in 1975 to 95.0 in 1976. Even given the one shot giant factory contracts in 1976, mechanical engineering has not been able to compensate for contraction of world markets and lack of investment.

The Predicament Of French Foreign Trade

FRANCE

The recent evolution of French foreign trade — with a decrease in import-volume by nearly 10 percent since the beginning of the year accelerating to an 11.7 percent fall in the value of total French imports in April, and an approximate 10 percent increase in exports through the stimulation provided by a "weak" franc — reflects a temporary *financial* success of the Giscard government in cutting down an endemic deficit. But the "success" has been obtained with an incompetent strategy. The