CONCLUSIONS

The foregoing analysis shows that fiscal and monetary policies followed by Germany after the Currency Reform were instrumental in paving the way for the rapid growth in her exports. By the very process of controlling and regulating domestic demand first for promoting exports and later for ensuring price stability, the German economy developed a strong orientation towards exports. With export demand growing fast and domestic demand kept low by fiscal and monetary measures, export industries began to grow more rapidly than those serving purely domestic needs.

This policy helped Germany solve the problem of unemployment without any large scale expansion in domestic credit which would have threatened price stability. The expansion of the domestic economy proceeded mainly from the impulse derived from an expanding export demand.

As a result of persistent increase in exports over imports, Germany began to experience chronic balance of payments surpluses. Her reserves of gold and foreign exchange rose from nil in 1950 to DM 26.1 billion in 1958. The holdings of gold alone amounted to DM 11.1 billion. Germany was exporting each year nearly 3 to 4 billion marks worth of goods and services more than what she was importing.

The accumulation of gold and foreign exchange by the State beyond what is required to meet unexpected shifts in
trade is as unproductive as hoardings of gold by individuals within a state. In conditions of full employment, any increase in exports unaccompanied by a similar rise in imports, reduces the total availability of goods and services within the country. It means in the final analysis, a deprivation to the nationals of the country the output of factors required to produce the trade surplus.

There are three ways of eliminating trade surpluses. First, by a redistribution of income in favour of low-income groups; secondly, by currency appreciation, and thirdly, by capital exports to developing countries. The last does not eliminate trade surpluses but diminishes the inflow of gold and foreign exchange.

Redistribution of Income:

A redistribution of income in favour of wage-earners in Germany is justified not only for reducing trade surpluses but also by considerations of distributive justice. At the time of the Currency Reform, wages were abnormally low in Germany as compared to other European countries. In 1934, wages had been stabilised at the lowest depression levels and during the next ten years an increase of only 3 per cent was permitted. During the War, real earnings of workers further declined. The German workers had virtually no share in the war-time increases in productivity.
At the time of the Currency Reform, real earnings in manufacturing, mining and transportation were nearly 30 per cent below the 1938 level, which was itself below the lowest depression level. Only in 1950 was the 1938 level of real wages reached.

Even in the fifties, the real earnings of German workers lagged behind the growth in per capita national income. From 1950 to 1958, real weekly earnings rose only by about 41 per cent. The years after the Currency Reform were marked by high profits, but the workers received hardly any share in the form of increased wages.

It is argued that increases in wages endanger price stability. But slight increases in prices should not be equated with a run-away inflation. A moderate increase in prices to accommodate a larger increase in wages is not likely to upset the economy. Moreover, the inflationary effects of a wage increase will be partly offset by the disinflationary effects of increased imports and reduced balance of payments surpluses.

Revaluation:

The procedure followed by the International Monetary Fund in fixing exchange rates of different national currencies after the War had many short-comings. War had totally disrupted national economies, production was low, import
requirements were high, and almost all countries experienced latent inflation. Under such conditions, it was impossible to determine long-term equilibrating rates. Even if such rates had been found, they would not have been suitable in the abnormal conditions of the immediate post-war years.

The Fund therefore decided simply to accept the parities submitted by each country. A revision of exchange rates later was envisaged, but the emphasis was only on an upward revision. A likely situation of an initial parity being too favourable for exports, and therefore requiring a downward revision was not even contemplated.

Considering the manner in which exchange rates were fixed, it is impossible to suggest that by some coincidence they corresponded exactly to the new price and cost relationships that had been established after the War. In Germany, initially a rate of RM 3.33 per U.S. dollar was fixed. In the general devaluation of September, 1949 this was revised to DM 4.20 per U.S. dollar. Both the rates were arbitrary.

In order to determine whether German currency is undervalued, a study of the movement of prices and wages confined to the post-war period, as is often done, is unlikely to yield any fruitful results. Due to different economic policies followed during a period of nearly two decades in Germany under a totalitarian regime and elsewhere in Western economies, there had developed a wide disparity in the levels
of prices and wages which was neither rectified after the War nor reflected in the new parities established after the War.

In 1944, wholesale prices in Germany were 14 points below the 1929 level whereas in the United Kingdom they were about 45 per cent higher and in the U.S.A. about 9 per cent higher. In France, prices had crossed the 1939 level even before the War commenced. The same is true of wages. German wage rates in 1939 were lower than the average money wage rates for 1925-29 by 9 per cent. In France, wage rates were nearly double. In U.K. and U.S.A. they were higher by 6 per cent and 5 per cent respectively.

During the entire period of War, hourly wage rates in Germany rose only by about 2 per cent. In Britain, on the other hand, they rose by 46 per cent and in the U.S.A. hourly earnings rose by 61 per cent. If we consider the trend from 1929 to 1944, the wide disparity becomes even more clear. In Germany, during this period, hourly money wage rates fell by 19 per cent. In Britain, they rose by 56 per cent and in the United States hourly earnings rose by 80 per cent. Relatively, therefore, in 1944 as compared to 1929, wage rates in Britain were roughly 90 per cent higher than in Germany and hourly earnings in U.S.A. about 120 per cent higher.

During the early thirties, when both pound and the dollar depreciated, the mark was not devalued and Germany
therefore had a slightly overvalued currency. By the end of the War, as a result of a relatively slower post-depression increase in prices and wages as compared to other countries, the Germany currency was without doubt undervalued. The extensive damage caused by the War concealed this.

The undervaluation of the German mark continued even after the cessation of hostilities. From 1944 to 1950 prices rose slightly faster in Germany than in U.K. or U.S.A., but the differential price increase was not sufficient to correct the disparities existing in 1944. As compared to 1929, prices in 1950 were higher roughly by 45 per cent in West Germany, 130 per cent in U.K. and 70 per cent in U.S.A.

Money wage increases were however greater. But, it should be noted that Germany started with an extremely low base and even a higher rate of increase than in Britain or U.S.A. was clearly inadequate to bring money wages on par with these countries.

In September, 1949 Germany devalued to the extent of 20.6 per cent as against a 30.8 per cent devaluation by Britain. But the divergent movement in prices and wages in the preceding two decades was greater than could be rectified by this comparatively lower rate of devaluation. The lower rate of devaluation helped her to obtain imports cheaply at a time when her import needs were great. Again in March, 1961 Germany revalued her currency by 5 per cent. This was, however, too small in relation to existing disparitie
Since 1964, when chronic balance of payments surpluses gave rise to a demand for revaluation of the mark, the Bundesbank has maintained that deficit countries should primarily bear the burden of adjustment. Deficits were attributed to lack of restraint over expenditures. Demands that Germany should revalue were even regarded as a penalty for virtue.

For various reasons, it may not always possible for deficit countries to bear the entire burden of adjustment. Very often, devaluation itself tends to push up prices and the initial improvement in the balance of payments may be shortlived. Reduction in domestic income and employment to restore equilibrium may be politically undesirable and socially unacceptable.

In actual fact, both chronic deficits and surpluses in balance of payments are symptoms of disequilibrium requiring exchange rate adjustment. The burden of adjustment should therefore be shared both by deficit and surplus countries. This is how the automatic adjustment process of the classical gold standard mechanism worked. Historically devaluation by deficit countries has not always helped in restoring equilibrium. Both in her own national interest and in the interest of deficit countries, Germany should revalue her currency.
Capital Exports:

One of the ways in which German balance of payments surpluses could have been usefully employed is to assist the economic development of low income countries. This point of view has, however, not found much favour in Germany. It is argued that, (a) German balance of payments surpluses are no indication of Germany's prosperity or her capacity to give aid, and (b) aid does not provide a solution to the problem of balance of payments surpluses, but would only aggravate it.

The first argument is based on the premise that no aid can be given without first raising necessary resources by taxation, or from the capital market or by imposing a burden on the German consumer in the form of higher prices. So formulated none of the measures seem feasible or justified.

The fact, however, remains that Germany has been exporting each year since 1952 on an average nearly 3 to 4 billion marks worth of real goods and services without receiving equivalent goods in exchange. Even during the early fifties when there was an acute shortage of capital, export surpluses were common. This situation has continued mainly because of Germany's refusal to make necessary adjustments in the pattern of demand, prices and exchange rates. As a result, Germany has been acquiring virtually dead
capital in the form of gold and dollars in exchange for real capital.

None of the conventional means of exporting capital is helpful. The only solution consists in utilising the accumulated reserves of gold and foreign exchange for giving aid to developing countries. This becomes easy when it is realised that a large part of these reserves, over and above what is required for meeting unexpected shifts in trade, has really no economic function to perform.

In theory, any convertible currency can serve the purpose of reserves. But in practice, the preference, next to gold, has been for dollars. In 1960, the dollar reserves with Germany amounted to DM 15 billion. This means a voluntary interest free credit by Germany to the United States to the extent of DM 15 billion. Even diverting this credit from the United States to the developing countries would go a long way in helping the latter.

One such way is for Germany to give long-term loans to international agencies like the I.B.R.D., obtaining in exchange bonds issued by them. This loan could be of a recurring nature, say, to the extent of 50 per cent of present reserves and 75 per cent of future surpluses. This will create a huge fund for financing projects in developing countries, and does not entail any burden on the German tax-payer or consumer, as what happens is merely an exchange of gold and dollars for the bonds of the I.B.R.D.
An objection may be raised that the bonds of the I.B.R.D. being illiquid, Germany may be left without reserves if a continuous run on her reserves were to occur. If this were to happen, liquidity can be restored by transferring these bonds by agreement to the I.B.R.D. which would again place them with the country momentarily having export surpluses.

The important thing is to raise the I.B.R.D. bonds to the status at present enjoyed by gold and dollars.

It is sometimes argued that aid only increases export surpluses. This is based on the so-called "boomerang effect" formulated by L. A. Hahn according to which monetary capital given to aid-receiving countries comes back to the donor country sooner or later when it is exchanged for goods and services. It is also maintained that Germany being the cheapest place in the world to buy from, aid only increases exports further giving rise to greater export surpluses.

If the above argument is true, it should be in the German interest to see that no country in the world gives any aid, and if, this cannot be done, at least to insist that aid should be strictly tied to the exports of the aid-giving country. If Germany is keen that aid given by her should not increase her exports, it is no problem. A selective export tax on goods the export of which is not considered desirable or a revaluation of the currency would have the
desired effect.

To conclude, the fiscal, monetary and incomes policies followed by Germany, the disequilibrating rate of exchange and the export oriented growth of industries have all resulted in a basic imbalance in the economy which manifests itself in a higher rate of exports than imports. Aid might aggravate the problem. But the remedy lies not in restricting aid, but in correcting the imbalances which gave rise to the problem.