

PRINCETON STUDIES IN INTERNATIONAL FINANCE, NO. 7

The Import Dependence of
Britain and Western Germany:
A Comparative Study

H. H. Liesner

INTERNATIONAL FINANCE SECTION
DEPARTMENT OF ECONOMICS AND SOCIOLOGY
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PRINCETON STUDIES
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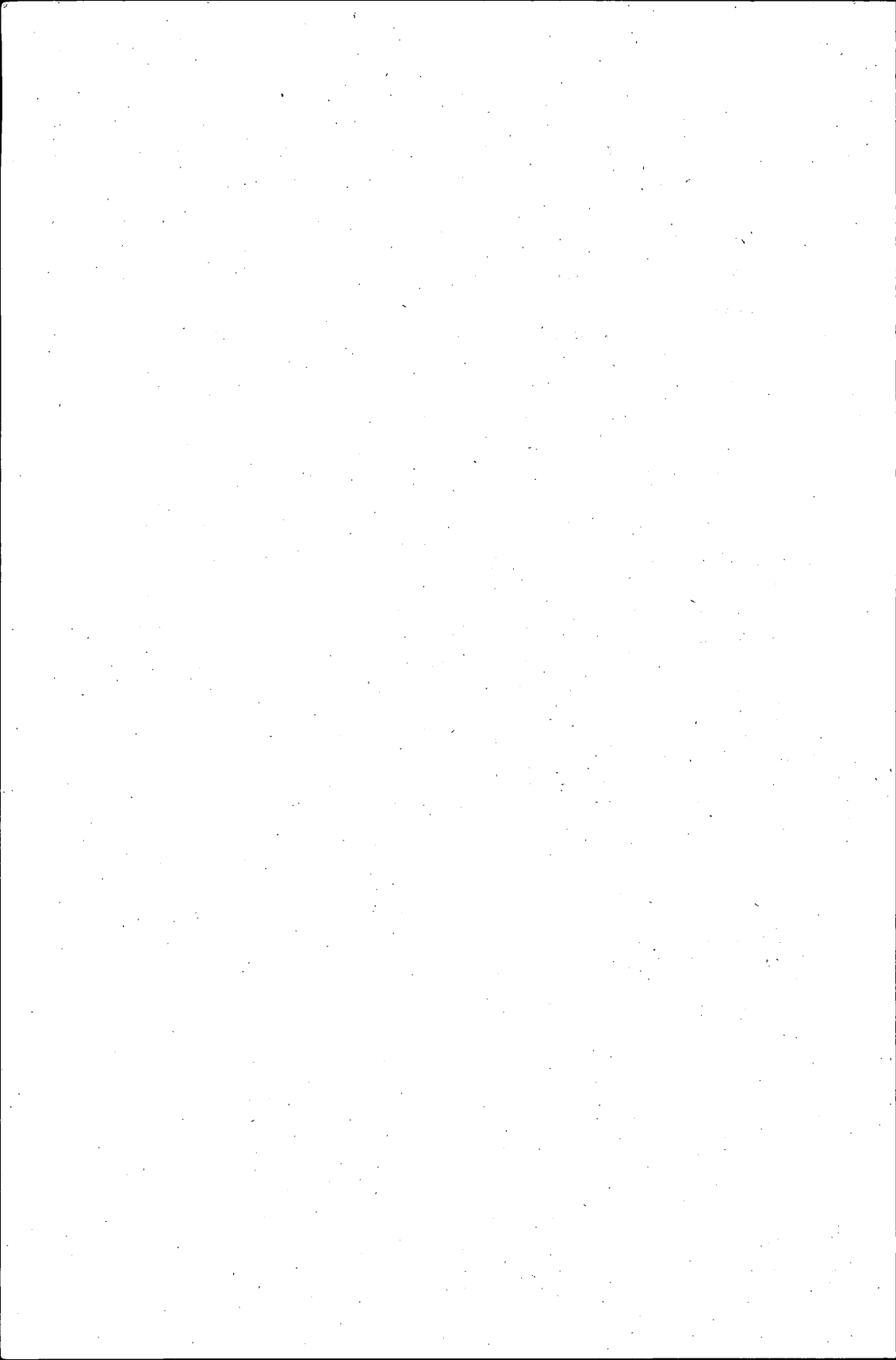
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Princeton University
December 1957



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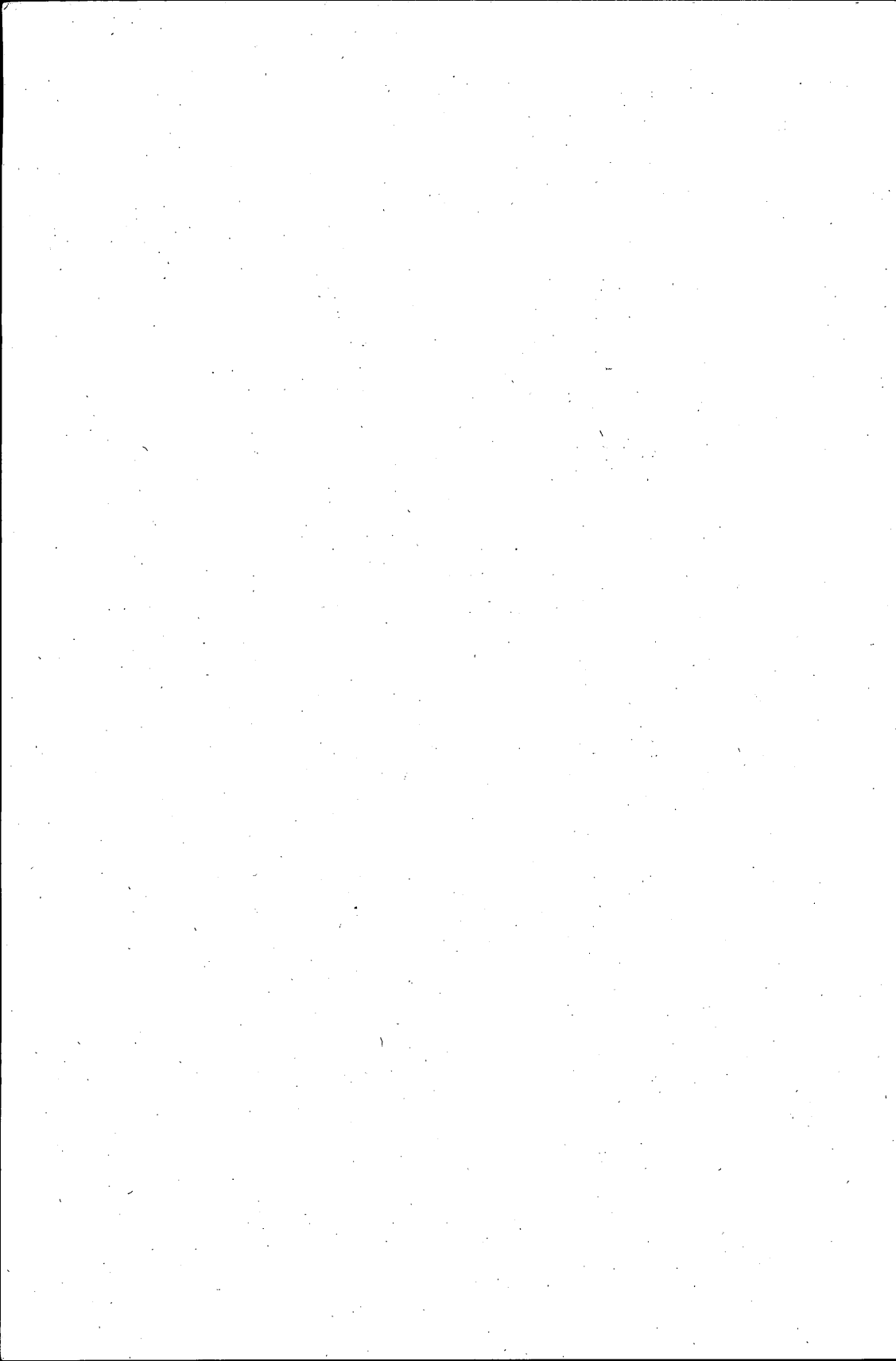
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P R E F A C E

This study was originally part of a thesis on which I was engaged during the tenure of a Studentship at Nuffield College, Oxford. It was brought up to date and considerably enlarged after I had taken up my present appointment at the London School of Economics and Political Science. I am indebted to Nuffield College for assistance in a number of ways, and very grateful to Sir Donald MacDougall, my supervisor there, for valuable criticism and advice. Professor J. E. Meade of the London School of Economics kindly read the whole of the draft and offered many helpful comments and suggestions. Some unpublished material was obtained from the Organisation for European Economic Co-operation, the Food and Agriculture Organisation of the United Nations, and the Board of Trade, and I am indebted to all concerned for their co-operation. Finally, I owe a great deal to my wife for her help and advice.

H. H. Liesner

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November 1957



I. INTRODUCTION

One of the most surprising aspects of the post-war recovery of Western Germany has been the strong balance of payments position. Since 1951, German payments have consistently been in surplus, and in some years the surplus has been very substantial, resulting in large additions to the country's gold and dollar reserves, and in a very marked creditor position in the European Payments Union. As Table 1 shows, by far the most important reason for this sound external account has been the large surplus of visible trade. Both exports and imports have expanded at a fast rate, but exports have always kept well ahead of imports, thus ensuring a positive trade balance.

In sharp contrast, the balance of payments of the United Kingdom over the same period has been in a much less satisfactory state. Not only has the average current account surplus achieved by the United Kingdom been smaller, but there is little doubt that the basic position has been considerably weaker. The fluctuations of the balance of payments bear testimony to this statement, and even if a sizeable surplus was earned in any particular year, observers were never free from concern about the future.

Over much of this period, Britain's moderate rate of expansion has threatened the balance of payments both directly through the relatively increased demand for imports and the relatively reduced availabilities of goods for export, and indirectly through the effects of the boom on the internal price level; the tightening of government economic policy in 1955 and 1956 was prompted in the main by this fact. In Germany on the other hand, although the rate of economic growth has been much faster, there has been no particular need to worry about the repercussions on the external account. The main concern has been the effects of the boom on internal prices; this not so much because it might lead to a less favourable payments position—many would even have welcomed a decline in the embarrassingly large surplus—but because the maintenance of the internal purchasing power of the mark as such has been, and no doubt will continue to be, one of the chief objectives of government policy.

It is clear, then, that over the recent past the current account

TABLE 1
BALANCE OF PAYMENTS ON CURRENT ACCOUNT,
GERMANY AND THE UNITED KINGDOM

(millions of dollars*)

		1950	1951	1952	1953	1954	1955
GERMANY	Imports ^a	-2,536	-3,112	-3,504	-3,589	-4,422	-5,463
	Exports	+1,979	+3,473	+4,034	+4,471	+5,374	+6,279
	Invisibles, net	-44	-175	+37	+88	+5	-120
	Balance	-601	+186	+567	+970	+957	+696
UNITED KINGDOM	Imports ^a	-6,672	-9,775	-8,243	-8,084	-8,434	-9,607
	Exports	+6,300	+7,694	+7,916	+7,476	+7,888	+8,582
	Invisibles, net	+1,294	+1,039	+806	+972	+1,154	+851
	Balance	+922	-1,042	+479	+364	+608	-174

Source: Germany: *Statistisches Jahrbuch*, 1956.

United Kingdom: *Balance of Payments White Paper*, Cmd. 9871 (1956).

No grants of any kind are included in the figures.

* National currencies were converted into dollars at official exchange rates.

^a There are two reasons why the import figures in this table differ from those in Table 2. (1) Imports in this table are quoted f.o.b., in the same way as exports, whereas Table 2 (and all subsequent tables relating to imports) refers to c.i.f. values. (2) In the case of the United Kingdom, imports in this table refer to total imports, i.e., re-exports are not subtracted, whereas Table 2 (and all subsequent tables) shows retained imports.

position of the United Kingdom has been a great deal less satisfactory than that of Western Germany. Obviously, any of the major components of the two countries' current account balances could theoretically be held responsible for this divergence, but in practice, most observers have concentrated on the relatively faster growth of German merchandise exports, and a number of studies have been made dealing with that part of the question.¹ By comparison, little work has been done as regards merchandise imports or invisible trade, and this study is intended to direct attention to one of these relatively neglected factors—namely, visible imports.

As can be seen in Table 1, German imports, although they have been expanding much faster than British, are still considerably smaller in absolute terms. At first sight, there may be nothing very surprising about this difference in reliance upon imported commodities. Given conditions in the rest of the world, there are, in general, a great many reasons why the import dependence of two countries should differ at any one time. One could cite the size of the population in the two countries, the extent and nature of their agricultural land, the degree of industrialization achieved as well as the nature of these industries, comparative supplies of raw materials required in the productive process, comparative standards of living, "consumers' tastes," and government economic activities in general and commercial policies in particular, as being but a few of the considerations which appear to be of major importance in this respect. These determinants are evidently to some extent dependent both upon each other and upon the level and composition of trade in the past, and in the face of such complex links the establishment of a few cause-and-effect relationships, which is all we can hope to achieve, must necessarily give a very incomplete picture of reality.

¹ Cf. Ludwig Erhard, *Deutschlands Rückkehr zum Weltmarkt*, Düsseldorf, 1953; Horst Mendershausen, *Two Post-war Recoveries of the German Economy*, Amsterdam, 1955; H. C. Wallich, *Mainsprings of the German Revival*, New Haven, 1955; A. K. Cairncross, "Britain's Export Prospects," *London & Cambridge Economic Bulletin*, published in *The Times Review of Industry*, June 1954; H. H. Liesner, "Comparative Costs and Prices in British, American and German Manufacturing Industry," *London & Cambridge Economic Bulletin*, published in *The Times Review of Industry*, September 1956.

In this case, i.e., the relative positions of Britain and Western Germany as regards import dependence, the fact that several of the fundamental parameters of comparative costs mentioned above are of a fairly similar nature both heightens the interest in the problems arising out of the striking quantitative difference between the two countries' imports, and eases the task of the investigator. Both countries have a population of slightly more than 50 million, occupying almost identical areas; moreover, the agricultural land of each is of about the same size if allowance is made for differences in distribution and quality.² Again, both the United Kingdom and Western Germany are heavily industrialized, although they both lack indigenous supplies of the great majority of raw materials required—coal being the most notable exception. And, lastly, the fact that the people of both countries broadly share the same civilization and are at a similar stage of general development would lead one to expect a basic similarity of tastes and consumption habits.

It is against this background of perhaps surprising likeness in a number of important respects that the disparity in import levels must be placed—a disparity which has been the object of frequent comment and speculation in the past few years,³ though the narrowing of the difference in the most recent past has probably led to reduced interest in these problems. Nevertheless, even if German imports were at some date in the future to rise to the level of British imports, it would still seem to be worth while enquiring why at a critical stage in the two countries' post-war

² Cf. Economic Commission for Europe and Food and Agriculture Organization, *Output and Expenses of Agriculture in Some European Countries*, Geneva, 1953, p. 15. Permanent grass and rough grazings are converted into arable by applying conversion factors of 2:1 and 4:1, respectively. Cf. also Economic Commission for Europe and Food and Agriculture Organization, *European Agriculture, a Statement of Problems*, Geneva, 1954, chart 3. A different definition of agricultural area appears to be used, but agricultural land is still shown to be the same in the two countries.

³ Cf. especially Economic Commission for Europe, *Economic Survey of Europe Since the War*, Geneva, 1953, pp. 97ff.; E. A. G. Robinson, "The Changing Structure of the British Economy," *Economic Journal*, September 1954; T. Zotschew, "Die Strukturwandlungen im deutschen Aussenhandel und deren Folgen für die westeuropäische Wirtschaft," *Weltwirtschaftliches Archiv*, Band 66, Heft 2, esp. pp. 296ff.; F. von Bismarck-Osten and T. Zotschew, "Der deutsche Aussenhandel im Rahmen der Welthandelsentwicklung," *Weltwirtschaftliches Archiv*, Band 69, Heft 2, esp. pp. 249f.; H. J. Dernburg, "Germany's External Economic Position," *American Economic Review*, September 1954.

economic history Germany managed with a far lower level of imported supplies than did Britain. Such was certainly not the expectation of economists after the war, when it became apparent that the division of the country would be more than a temporary phenomenon. There were confident predictions that Western Germany's import dependence would be similar to that of Britain, for fairly obvious reasons—the loss of the eastern provinces with their surplus of agricultural products, the large population increase in the west, and the need for much larger raw material supplies to sustain a higher level of industrial output, both to produce the exports needed to pay for these larger imports, and to provide employment as well as goods for the refugees.⁴

This, then, is the problem before us. Over the period under consideration, the import dependence of the German economy has been substantially below that of the British; for a number of reasons, this conflicts with what one would expect on a-priori grounds. At the same time, this gap in imports narrowed considerably in the last two years of our period. What is called for, therefore, is first of all an analysis of the factors which enabled Germany to manage with a very much lower level of imports; and, secondly, an account of the changes as a result of which these factors are less operative now than they were at the beginning of this period.

Our first task is to look a little more closely at the facts of the situation. Table 2 presents statistics of German and British imports by value between 1950 and 1955, broken down into three groups: (a) food, drink, and tobacco; (b) materials for industrial processing;⁵ and (c) finished manufactures and other.

It is apparent at a glance that the distribution of imports among these three groups is rather similar for the two countries under discussion. In either case, the first two groups account for the bulk of the import bill, and finished manufactures play only a fairly small quantitative role. For this reason, our enquiry will

⁴ Cf. F. Baade, "Der Europäische Long-term Plan und die Amerikanische Politik," *Kieler Studien*, No. 1; O. Emminger, "Deutschlands Stellung in der Weltwirtschaft," *Kieler Vorträge*, N.F., No. 4; Economic Commission for Europe, reports, *passim*.

⁵ That is, raw materials and semi-manufactures. For a precise definition, cf. note to Table 5, p. 37.

TABLE 2
GERMAN AND BRITISH IMPORTS, GROUPED ACCORDING TO THREE MAIN CATEGORIES

		1950		1951		1952	
		millions of dollars	per cent of total	millions of dollars	per cent of total	millions of dollars	per cent of total
A. Food, drink, and tobacco	Germany	1,042	38.7	1,147	32.9	1,242	32.6
	United Kingdom	2,834	40.1	3,567	33.7	3,316	35.5
	Germany/United Kingdom	36.9		32.1		37.5	
B. Industrial materials	Germany	1,344	49.8	1,906	54.6	2,004	52.5
	United Kingdom	3,356	47.6	5,851	55.4	4,915	52.7
	Germany/United Kingdom	40.1		32.5		40.7	
C. Finished manufactures and other	Germany	311	11.5	438	12.5	568	14.9
	United Kingdom	864	12.3	1,153	10.9	1,102	11.8
	Germany/United Kingdom	36.0		37.9		51.5	
TOTAL	Germany	2,697	100	3,491	100	3,814	100
	United Kingdom	7,054	100	10,570	100	9,333	100
	Germany/United Kingdom	38.2		33.1		40.9	

(continued on facing page)

TABLE 2, *continued*

		1953		1954		1955	
		millions of dollars	per cent of total	millions of dollars	per cent of total	millions of dollars	per cent of total
A. Food, drink, and tobacco	Germany	1,172	31.1	1,449	31.5	1,544	26.7
	United Kingdom	3,613	39.8	3,643	39.8	3,961	37.5
	Germany/United Kingdom	32.5		39.7		39.0	
B. Industrial materials	Germany	2,073	54.9	2,551	56.0	3,420	59.0
	United Kingdom	4,417	48.8	4,522	49.3	5,255	49.9
	Germany/United Kingdom	46.9		56.4		65.0	
C. Finished manufactures and other	Germany	526	14.0	570	12.5	830	14.3
	United Kingdom	1,035	11.4	999	10.9	1,332	12.6
	Germany/United Kingdom	50.8		57.0		62.2	
TOTAL	Germany	3,771	100	4,571	100	5,793	100
	United Kingdom	9,065	100	9,164	100	10,549	100
	Germany/United Kingdom	41.6		49.9		54.9	

Source: Germany: Organisation for European Economic Co-operation, Statistical Bulletins, *Foreign Trade*, Series III and IV. United Kingdom: 1950-1954: *Annual Statement of the Trade of the United Kingdom*. 1955: As for Germany.

The three groups in this table are derived from statistics showing the imports of each country according to the Standard International Trade Classification. Group A corresponds to sections 0 and 1; group B to sections 2 (with minor exceptions) and 4, and parts of sections 3, 5, 6, and 8; and group C to sections 7 and 9 and the remaining parts of 3, 5, 6, and 8. Edible oils and fats are shown as part of group B as the Standard International Trade Classification does not show them separately from other oils and fats. For greater detail, cf. note to Table 5, p. 37.

concentrate on food and industrial materials, and finished manufactures will be disregarded. As to the first two groups taken separately, almost 40 per cent of British imports consisted of food, drink, and tobacco, and about 50 per cent consisted of industrial materials. The German figures are much the same—the share of food, etc., was about one-third, and that of industrial materials a little over one-half.⁶ However, while these shares appear to be fairly constant in the British case, there seems to be a downward trend in the share of German food imports and a corresponding upward trend in industrial materials; viz., the first group is expanding less fast than imports as a whole, whereas the second is expanding at a faster rate. The effect of these divergent trends upon the difference between German and British imports in each group (cf. the rows showing German imports as a percentage of British) is that the gap between German and British imports of food, drink, and tobacco has remained almost the same, German purchases being a little less than 40 per cent of British, whereas that between German and British imports of industrial materials has shrunk at a particularly fast rate. Early in this decade, German imports in this latter group were less than 40 per cent⁷ of corresponding British imports, but by 1955 they had risen to two-thirds, and there is little doubt that the difference has still further decreased since then.

In other words, as regards food, etc., the forces making for a lower German import dependence have remained largely unchanged, whereas they have weakened considerably as regards industrial materials. The implication for our analysis is that in the first case we can, to some extent at least, ignore the movement over time, and therefore the position will be considered not on an annual basis but for two periods of three years each. This simplifies matters considerably, fits in with the available statistics, and

⁶ To a small extent, the lack of change in the difference between relative food imports is due to divergent price movements; whereas British import prices rose slightly between period 1 and period 2, German import prices declined to a small extent (cf. also Appendix A, note 2, p. 75). In the case of industrial materials, on the other hand, price movements appear to have been very similar (cf. Appendix B, p. 88).

⁷ The figures for 1950 and 1951 are best considered together, as stock changes were important in the case of both economies, though opposite in direction. Cf. p. 34 below.

yet allows us to obtain some idea of changes over time with respect to particular commodities which—in contrast to the total—have been quite marked in some instances. In the case of industrial materials, on the other hand, the changes over the period have been as important as the absolute difference itself, and hence we shall be obliged to work on an annual basis.

II. FOOD IMPORTS

Introduction

We begin, then, with food, drink, and tobacco. Our first task is to break down this group into its constituent commodities. Table 3 shows the composition of German and British imports of food, etc., according to nine subgroups over the two periods 1950-1952 and 1953-1955. The figures suggest that during both periods the difference in total food imports was spread over all the major subgroups, though to varying degrees. Taking the more important items, the difference was particularly marked in the cases of meat, dairy products, sugar, and tobacco, while as regards cereals, fruit and vegetables, and coffee, etc., the difference in imports was smaller than the average. If we look briefly at the changes from the first period to the second, we see that the position has remained more or less the same in the cases of meat, cereals, and tobacco, the gap between relative imports has narrowed in the cases of dairy products, fruit and vegetables, and coffee, etc., and it has widened very sharply in the case of sugar.

Role of Current Governmental Policies

This, then, is a fairly detailed picture of the position. But what are the reasons for these facts? We might best begin with a negative factor. It is unlikely that *current* government policies towards agriculture and food imports have an important bearing on our problem. The main reason for this is, of course, that the two governments do in fact pursue a very similar policy towards agriculture.¹ At present, both Britain and Germany systematically protect their agricultural sector against overseas competition, though they employ very different means in order to attain

¹ A second—rather more theoretical—reason might well be added. It is in any case unlikely that differences in current commercial policy would change the situation to any great degree. Assume that we had two economies alike in all respects, including a certain measure of protection. If at some point in time this protection were removed in one of the countries, the full effect on home output and imports would probably not be felt for some considerable time, and hardly at all during a period of only six years. Agricultural manpower is notoriously immobile, and there might even be a temporary increase in output as farmers attempted to make up for the loss of income by higher output. Supply would probably be equally inelastic if protection were suddenly increased very substantially in one of the countries.