

Editorial



Dr. Kurt Hornschild,
head of the "Industry and Technology"
department, asks:

"Why innovate when you can buy?"

German firms are successful on foreign markets, a fact confirmed by the high rates of export growth, the balance of trade surplus of DM 42 billion in 1996 and signs that the surplus will go on rising. The profitability of German companies has also improved once more. Yet unemployment remains high and domestic demand is too weak to ease the pressure on the labour market. That is why economic growth is more vital than ever.

Economic policy makers must adopt a more overtly expansionist course. Collective wage bargainers have already largely met this requirement: pay settlements have been moderate, inflation is low. Monetary and fiscal policy, on the other hand, are not providing sufficient impulses. However, growth-oriented macroeconomic conditions are only a necessary, but not a sufficient, condition for the desired economic dynamic to unfold. Firms, too, must play their part and make better use of the opportunities offered by the domestic economy. They have already begun to embrace lean production, have substantially reduced workforce levels and have improved product quality. According to one international agency, German firms are not only successful on export markets, they are also currently on a "spending spree": they are using the profits earned at home to purchase firms abroad on a scale previously unknown. In so doing, firms are reacting to changed market requirements by tapping into new growth fields on foreign markets, clearly because they see traditional domestic markets as largely satiated. From a microeconomic perspective such behaviour may well be successful. Yet firms tend to overlook the unexploited market potential that exists on domestic markets. They forget that steady growth is achieved primarily through new products. If they were to start an "innovation offensive" they would not only improve their profitability and competitive position, they would also create new jobs in the domestic economy. Low interest rates, the huge technological potential that still exists in Germany and the good human capital endowment offer important preconditions for this. Such an offensive strategy would also ease the burden on the social insurance system and reduce indirect labour costs.

Instead of complaining about the quality of Germany as a production location and demanding further cost reductions from government, firms should once again, in their own interest, further exploit the potential of innovation. The origin of innovation lies in a problem, the constraints it imposes and the prospects of earning money from solving the problem. One is forced to ask whether profit expectations are perhaps so good that firms feel able to dispense with innovation. Yet managers are generally agreed to have failed in the job if they fail to recognise or exploit market opportunities.