Table 6

Unemployment (official figures)

(% of labor force or of registered employees seasonally adjusted)

	1973	1975	END OF 1976	TREND IN 1977
WEST GERMANY	1.3	4.7	4.4	INC.*
FRANCE	1.8	3.8	4.5	INC.*
ITALY	3.4	3.4	3.7	INC.*
UNITED KINGDOM	2.6	3.9	5.6	INC.*
BELGIUM	2.3	4.5	6.1	INC.*

*INDICATES INCREASE

SOURCE: NATIONAL STATISTICS

the automotive industry, upon which the 1975-1976 "recovery" was built (see in Table 5 the cases of France and West Germany), is now itself directly in jeopardy. The first sign has been given by Britain's 10 percent volume-decline in exports of motor vehicles and other transport equipment in the last quarter compared to the previous one. The Leyland strike could be cited of course, but the answer is that the British setback was not followed by a similar increase in West German or French exports, which would have happened under normal circumstances. Auto experts in Europe are pessimistic for the coming months, correctly fearing the consequences of austerity on consumer demand. A significant crisis in the auto industry would trigger a general collapse in Europe, giving the *coup de grace* to the steel industry the survival of which presently depends upon vehicle production.

At the level of the industrial firms, the global crisis is ironically reflected in a relatively good liquidity situation — only due to paralysis: there is less and less capital spending, no inventory buildup and therefore little bank borrowing. The European bond and stock markets are in a state of collapse, except for speculation around the bailing out of England based upon the miracle of the North Sea. But within the dollar system, such a miracle is nothing but a hoax. The North Sea "surpluses" may very well be absorbed by debt repayments, which will represent $800 million in 1978 and above $2 billion per year from 1979 to 1983, more than all the treasures of the North Sea could cover in a situation of trade and production breakdown.

Similarily, the French government and public sector have heavily borrowed aborad and keep borrowing to finance the continuing current account deficit, only postponing crucial decisions.

But the worst aspect of the present industrial crisis is, together with the triage of the basic industries, the no less deliberate destruction of the cognitive powers of the working class. This directly endangers the prospect of a future recovery based on advanced equipment and technologies. Table 6 shows the official unemployment figures, reflecting a permanent increase in all countries since 1973, except for a relative stabilization in Germany between 1975 and 1976. But more recently, Germany has not been able to escape the common law, and the January 1977 figure is already 15 percent above the 1976 year-end levels. Worse, under-employment and degradation of the working conditions are even more general than unemployment. Broadly, if the total European (EEC) unemployment could be officially estimated to about 5 percent of the active population, the wasted labor-force in purely quantitative terms reaches more than 15 percent. The youth is more directly hit (between 15 and 45 percent of the total unemployed) together with foreign laborers, for which, officially or not, recruitment is practically banned.

The living standards of the workers — even the employed with nominally maintained wages in real terms — are cut by the rise in foodstuff imports and elimination of municipal, urban and state services, such as health care.

Both in terms of basic industries and labor power, the situation is such that the conditions for a recovery could not be met without a new monetary and credit system — and the European governments know it.

Capital Goods Order Collapse Is A Warning Signal

WEST GERMANY

In January 1977, manufacturing orders to West German firms registered an overall decline of 6 percent, including an even more dramatic drop of 14.5 percent in orders to capital goods producers. The foreboding lack of new orders to the capital equipment sector, the hub of the country's economy, signals that West German manufacturers are only months away from a 1930s style depression collapse unless a European recovery program based on massive industrial investment is put into effect.

The final draft of the 1977 West German federal budget reveals that leading political and industrial figures are unprepared to meet this looming crisis. The terms of the budget are a patchwork of penny-pinching trade-offs between "stability minded" members of Chancellor Sch-

Table 1—Orders To The Manufacturing Industry

(1970 = 100)

		TOTAL MANUFACTURING ORDERS	PRODUCER GOODS ORDERS	CAPITAL EQUIPMENT ORDERS	FOREIGN CAPITAL EQUIPMENT ORDERS
1976	JULY	175	151	203	389
	AUGUST	158	150	174	246
	SEPT.	158	153	164	204
	OCT.	157	151	165	206
	NOV.	155	152	161	204
	DEC.	162	153	174	213
1977	JAN.	152	147	157	182

Note: Capital equipment orders, especially from abroad, have been the major stabilizing influence in the economy. In January, capital equipment orders dropped 14.5 percent.

Source: Handelsblatt

midt's cabinet and an unseemly coalition of trade union and Parliamentary operatives, working on behalf of the Carter Administration, who want to steer the Federal Republic onto a hyperinflationary course.

Ironically, the high levels of government borrowing which are the foundation of Schmidt's "stability" program are permitting inflation to sneak in through the back door. With corporate investment at extremely low levels, and industrial profit margins thinning, companies are introducing price-hikes in order to stay afloat. The consumer price index for January was running at an annual rate of 9 percent.

As pointed out recently by Gerhard Stoltenberg, a leading Christian Democratic spokesman for industry, a mere 1 percent drop in real economic growth will result in a decline in tax resources of 7 billion deutschemarks. The entire budget is based on the hope that the economy will be able to generate both a further 11 billion marks in tax income and close to 60 billion marks in total government deficit financing.

The rise in unemployment at the beginning of 1977 demonstrates the vulnerability of the tax base of the economy. At 1.2 million, January unemployment was 15 percent above year end levels. The number of workers on short hours has been rising steadily: following a 26 percent increase in January, an additional rise of 4.6 percent was registered in February. The mining industry has already announced a wave of temporary layoffs for this spring.

Importantly, the decline in capital goods orders introduces a new dimension of crisis symptoms into the overall economy.

It would be extremely foolish to think that the January developments in this sector are a temporary phenomenon. (The Federal Economics Ministry withheld the January statistics for two weeks, and upon issuance, pleaded that observers not take them too literally since a major statistical reordering of their categories had just been performed.) The overall pattern of decline in world trade since the beginning of this year will have a devastating impact on West Germany's export-dependent economy.

Capital Goods and Investment Crisis

Preliminarily, during 1976, capital equipment production constituted a stabilizing element for the Federal Republic's economy. Order backlogs for this major grouping stood at 4.6 months; although not very impressive, this level was considerably higher than the overall industrial average of 3.1 months. A large scale influx of capital goods orders from abroad in August 1976, alongside a partial recovery of the chemicals industry from its 1975 recession, and a year-end pickup in consumer purchases of automobiles summarizes entirely the foundation for West Germany's "relative stability" last year. (See Table 1)

As emphasized by Dr. Riechebaecher, a chief official of the Dresdner Bank, in a special commentary issued in

Table 2—Age Of Industry

(in percentage of all equipment for industry)

AGE	1960	1965	1970	1975
		ALL INDUSTRY		
5 AND YOUNGER	41.1	37.5	31.3	30.2
6 - 10	26.9	28.6	28.7	24.8
11 AND OLDER	32.0	33.9	40.0	45.0
		MINING		
5 AND YOUNGER	34.7	24.7	17.1	17.1
6 - 10	28.3	30.1	24.0	18.8
11 AND OLDER	37.0	45.2	58.9	64.1
		PRODUCER GOODS		
5 AND YOUNGER	40.4	38.6	32.4	30.9
6 - 10	26.2	28.1	29.3	25.7
11 AND OLDER	33.4	33.3	38.3	43.4
		CAPITAL EQUIPMENT		
5 AND YOUNGER	44.7	40.8	32.6	32.2
6 - 10	27.0	28.7	29.8	24.3
11 AND OLDER	28.3	30.5	37.6	43.5

SOURCE: DEUTSCHES INSTITUTE DER WIRTSCHAFT, NOV. 1975 SPECIAL REPORT

Table 3—Industrial Investment (Effective Real Capital Increments)

MILLION DEUTSCHEMARKS IN 1970 PRICES

	1960	1965	1970	1975
MINING	859	253	- 74	- 638
MANUFACTURING	19,339	22,049	27,508	16,437
PRODUCER GOODS	6,676	8,137	9,887	5,441
-IRON AND STEEL	1,173	1,530	1,084	590
-NON-FERROUS METALS	234	267	796	293
-CHEMICAL INDUSTRY	2,477	3,395	4,294	3,010
CAPITAL GOODS	7,259	8,091	11,049	7,141
-MACHINE BUILDING	1,814	1,966	2,708	1,576
-MOTOR VEHICLES	2,235	2,566	3,203	1,919
-SHIPPING	89	119	64	169
-ELECTRO-TECHNICAL	1,527	1,641	2,564	2,092

SOURCE: DEUTSCHES INSTITUTE DER WIRTSCHAFT, NOV. 1975

February, corporate expansion of inventory stockpiles was responsible for no less than half of 1976's seemingly positive developments. Dr. Riechebaecher characterized the recovery as "short-lived."

Even more ominously, West German manufacturers are now being confronted with the effects of the absence of any capital investment programs since 1970. According to the Berlin German Economic Institute (DIW), beginning in 1975, more than half of all West German industry was more than 11 years old (see Table 2). From 1970-74, effective investment in industrial installations declined no less than 43 percent (1970: 27.4 billion deutschemarks; 1974: 15.8 billion deutschemarks). While these margins include a considerable level of disinvestment in the mining sector (more than 500 million deutsche marks), they also show rapid declines in investment especially in the ferrous- and non-ferrous metals industries.

The DIW pointed out, however, that the capital goods sector and the food-processing industry maintained a noticeably lower rate of investment decline than the rest of the economy (see Table 3).

According to a recent Bundesbank survey, both in 1975 and 1976, industrial investment was channeled overwhelmingly into rationalization and replacement parts. This is confirmed by the continuous falls in employment levels straight through 1970 to the end of 1976. Following the imposition of a ban in 1976 on recruitment of new foreign laborers, and nearly 1 million unemployed in youth and other undocumented categories, employment in manufacturing stood at 7,474,000 at the end of last year; in 1970, more than 8.5 million workers were employed in industry, but this level has not been achieved since that time.

This "stagnant investment climate" has been accompanied by a tendency for net capital outflows out of the country, as the largest corporations are seeking plant and equipment abroad rather than expand capacity domestically. Over 1975 and 1976, direct investments by West German corporations abroad exceeded foreign investments within West Germany by 1.615 billion and 1.945 billion deutschemarks respectively. Perhaps it is a small consolation to the country's industrial magnates that the United States economy is even further disinvested than their own and therefore cheaper. No less than 24 percent of West German foreign investment ends up in the United States.

Budgetary Tug of War

As corporations shy away from borrowing for investment, the country's capital markets are almost exclusively tied up in financing the extraordinary indebtedness of the public authorities. As a direct outcome of the 1974 international oil crisis, the tax base of the West German economy suddenly shrank during 1975. Since that time, the federal government has been slapped with a huge budgetary deficit, on top of a total level of indebtedness of more than 120 billion deutschemarks (compared to a total federal budget of 174 billion deutschemarks this year).

Chancellor Schmidt's "stability" program does not constitute a policy; it is merely a defensive reaction against continuous pressure from Washington for the West Germans to throw their economy overboard and join the U.S. in a monetary spending spree to bail out Eurodollar and New York international banking loans. Such marginal successes as the reduction of the federal deficit by 4 billion deutschemarks last year have been achieved at a new marginal cost to the real economy in the form of tax hikes. Beginning in 1978, the Value Added Tax on corporate turnover will be raised 11 percent, despite dangerously slim corporate earnings ratios.

The weakness of the Schmidt program has been pinpointed repeatedly by Christian Democrat Stoltenberg, whose industrial collaborators wanted the government to set up an ambitious tax benefits program for industrial investment. Unfortunately the Stoltenberg proposals would only stick a bandaid on the imploding infrastructure of industry. Since the Stoltenberg faction is not committed to debt moratorium reorganization of the public authorities, tax benefits to industrial investors would only mean an additional tax burden on the labor force. The crippling limitations of both the Schmidt and Stoltenberg approach — each formulated by political forces sympathetic to global economic expansion — prove that there is no realistic solution to West Germany's economic ills short of a European-wide industrial investment policy.

The totality of new government borrowing this year (federal: 23 billion; states: 14 billion; municipalities: approximately 10 billion deutschemarks) will be channeled into deficit financing and debt repayment. No less than 10 billion deutschmarks will be used to finance the operating deficit of the federal railway system, which alone has an accumulated debt of 30 billion deutschemarks, and a 14 billion deutschemarks borrowing program for 1977.

Federal credit needs are financed almost exclusively through the bond market. Aside from a tense period in early February, when the federal railway issue was passed for days between traders, and the Central Bank was forced to intervene at low levels to prop the market up, the government has had no major problems thus far meeting its credit needs. However, all observers agree that this momentary stability is the result of two shaky conditions: the expectation that corporations will not enter the capital markets until the second half of the year (i.e. — will not invest this year!); and the hope that U.S. interest rates will not suddenly shift.

When the debate on the 1977 budget began this January, Chancellor Schmidt and Economics Minister Friderichs were adamant about keeping "monetary stimulation" at 10-12 billion deutschemarks over four years. Pro-Carter forces, exemplified by German Trade Union Federation chairman Heinz Oskar Vetter, lobbied intensively for a labor-creation program twice that size.

In the interim period, the Carterite forces have won this squabble. The final emergency "stimulation" program has been set at 17 billion deutschemarks over four years.

Schmidt's decision to meet the Carter forces part way is mostly the result of a stalemate in Western Europe on deliberations with the Soviet Union for a gold-backed monetary system. It is also a panicked reaction to the state of the domestic construction industry, which is to be the main beneficiary of the government's deficit spending pocket money.

The construction industry is barely holding up above official "recession" levels. Construction output during 1976 was below 400,000 new housing units, a level which has not been seen since 1950 — when the West German economy had not yet even begun reconstruction. Capacity utilization is 50 percent, and orders stand at a mere 2.1 months.

The government program will not create new housing units but will concentrate almost exclusively on "renovation" and other low-wage programs. As "crisis-management" schemes such as these go into implementation, nervous industrialists and government officials are beginning to fall back on the mentality of the 1950s, when large features of the post-war "reconstruction" program were financed by wage looting and private savings. An executive of the Krupp corporation recently stated outright, "There should be a return to the spirit of the 1950s on the wage question." Wages at that time were below the levels maintained by the Hitler regime.

Similarly, the government itself is hoping to finance its credit needs partly by a wave of private investment in bonds. Later this year, several tens of billions of deutschemarks which have been frozen in private banking accounts under a special government seven-year savings promotion plan will be released. Official sources state they are counting on the "savings mentality" of the population to market their debt paper.

Growth Of Government Debt And Tax Revenues

BILLION DEUTSCHEMARKS

	ALL GOVERNMENT DEBT (FEDERAL, STATE, LOCAL)	ALL GOVERNMENT TAX REVENUES (FEDERAL, STATE, LOCAL)	NEW CREDITS/YEAR (FEDERAL AND STATE)	DEFICITS (FEDERAL AND STATE)
1970	125	154.2		
1971	140	172.4		
1972	156	197.0	10	5.3
1973	163	224.8	11	6.3
1974	187	239.6	29	20.0
1975	250	242.2	46	43.9
1976*	283	196.9	27	24.9
1977**			36.8	

* 3 quarters ** Projected

SOURCE: INTERNATIONAL PRESS SERVICE, FEB 1977