Virtually none of the BRD corporate credit expansion has been directed into manufacturing. Instead, installment loans and other types of consumer debt soared in order to finance an ephemeral auto boomlet.

Official figures for BRD credit to economic sectors show, for a January 1974-December 1976 period, that the percentage growth per annum has been the following:

Total private sector	+7.6%
Enterprises	+6.6%
— Manufacturing	+2.25%
Private individuals	+15.3%
— Installment credit	+22.3%

Bundesbank figures for 1977 indicate that this trend has worsened. At the end of March 1977, consumer credit had risen 20.5 percent from the 1976 level but bank lending to manufacturing was up only 6 percent on the year. Bank lending to the public sector continued to grow at 10 percent annual rates — faster than the private sector as a whole.

Meanwhile, the rapid growth of the Eurodeutschemark market primarily based in Luxembourg, represents a potentially dangerous inflationary cancer. Since 1969, the Eurodeutschemark pool has multiplied twelvefold from a mere $3.9 billion to $48.7 billion in 1976.

For all the above reasons, further internal "stimulus" programs cannot possibly revive the BRD economy but will only severely aggravate the already rapid decline of its industrial base. West Germany's main hope now lies in a reconstruction of the international monetary system to provide the context in which the country's capital goods exports can expand.

—Alice Roth

BRD: Industrial Colossus With Feet Of Clay

While the evident lag in the West German economy recently has led to redoubled calls from such U.S.-linked forces as trade union leader Eugen Loderer for massive government deficit spending to create make-work public jobs, analysis of the latest West German figures and trends appears to strongly bear out Chancellor Helmut Schmidt's insistence that no stimulation program of any size can take the place of a flourishing world market for West German industry.

Thus, while the disturbing decline in the rate of growth of the West German GNP was cited by Schmidt in proposing a modest reflation program of a 10 percent increase in the federal budget and cuts in personal and business income taxes recently (the Chancellor has also taken steps to enable local governments to get easier credit, though he has not given any money to this program), the total federal, state, and municipal government debt for 1977, DM 47 billion, is not organized to provide any such jobs at all.

It remains to be seen, however, what strategy the Schmidt government will adopt, beyond resisting British and Carter-Mondale Administration calls for world hyperinflation, to bolster West Germany's plodding performance in the anemic international industrial market.

Foreign orders, which account for 25 percent of the West German Gross National Product, decreased 4 percent in July, following a 6 percent decrease in June. Steel production in August was only 1.4 million tons, compared to a just as discouraging 1.51 million tons in August 1976. Incoming steel orders in August from European Economic Community countries decreased 42 percent and domestic steel orders dropped 8 percent compared to July.

This plunge in orders and production caused West German exports to decrease by .8 percent in July against June, although imports increased by 3.4 percent during the same month. A preliminary overview of import and export figures for August, however, indicates that both imports and exports dropped. This means that the decrease in West German exports to several key sectors since January (Table 1) is finally deepening to an overall export *and* import decrease, too. The export decline started with a fall off in orders from the weaker economies of Italy, France, Denmark, and the Third World, and as these countries form one-third of West Germany's total export market, the drop-off in exports indicates export markets are undergoing a dangerous contraction.

The dollar-debt overhang that is preventing West German trade from advancing was analyzed in a recent *Executive Intelligence Review* (Vol. IV, No. 37, "The Dilemma of East Bloc Debt") for the centrally planned economies. The decrease in exports, and its accompanying import decrease, will accelerate as corporations find that they are increasingly unable to either sell their products or pay for raw materials in the amount they were accustomed during this downswing.

As Table 2 shows, the world depression has collasped West German manufacturing as such a rate in the 1975-1976 period that manufacturing has done far worse than stagnate — it has actually decreased. The only sectors that have not decreased are the auto sector, whose products have been purchased through the issuance of disturbing quantities of consumer credit, and the electrotechnical sector, which has been helped by several one-shot sales such as the purchase of $4 to $5 billion worth of nuclear energy equipment by Brazil. The auto sector, with its feeble "boom" of a 2.2 percent increase in output from 1973 to 1976, is the sector cited by economic apologists as proof that collapsing world markets can be offset by increased domestic demand.

The real effect of the depression is best shown by the decreases in output in the basic producer, capital, and engineering goods sectors, the backbone of BRD industry, and the source of about 60 percent of its exports. The anemic condition of these production categories show that the economy has never recovered from the onslaught of the world recession.

As a result of this collapse in industrial production, manufacturing investment has decreased in both current and constant deutschemarks (Table 3). The cumulative investment gap, the figure that would have been spent on capital renewal and improvement in a flourishing economy since 1971, is approximately DM 50 billion. As this investment gap increases, West German industry becomes increasingly undercapitalized and obsolete, losing markets, (such as its own domestic steel market) to more advanced industries elsewhere. The West German steel companies' charge that Japanese, Italian, Spanish, and South African steel companies are dumping steel reflects the fact that these companies, with more modern equipment than their West German competitors, can successfully out-produce and undersell West German producers on their own home market.

West German corporations themselves have become increasingly aware that there is no longer much profit in industrial investments, given shrinking world and domestic markets. Table 4 shows where West German corporate funds are going — not into investment, but into bond purchases and foreign trade credit. Corporations increased their speculative holdings of financial paper by 88 percent in 1976 in order to get a return on their capital that they would not get from manufacturing. Foreign trade credit given by private companies also soared as companies, desperate to keep up their foreign order inventories, were forced to finance their customers' purchases of their products because of those customers' debt overhang. This form of autogestion "stimulation" in 1976, which jumped by more than DM 10

Table 1

Changes in BRD Exports and Imports in First Half of 1977

Note: A minimum increase of 4-5% per year is needed just to keep up with inflation

	1/76-6/76 Compared to 1/77-6/77 % Change in Year	1/76-6/76 Compared to 1/77-6/77 % Total
All Countries		
Exports	+ 8.9	100.0
Imports	+ 8.3	100.0
Western Industrial		
Exports	+ 8.8	70.7
Imports	+ 7.0	70.8
Denmark		
Exports	- 8.5	2.6
Imports	+ 5.5	1.5
France		
Exports	+ 2.1	13.1
Imports	+ 6.3	11.6
U.K.		
Exports	+19.6	4.7
Imports	+18.3	3.8
Italy		
Exports	+ 3.1	7.4
Imports	+11.0	8.5
Centrally Planned		
Exports	- 8.6	6.8
Imports	- 0.6	4.9
OPEC		
Exports	+30.1	8.1
Imports	+ 5.3	11.0
Developing		
Exports	+ 7.0	14.1
Imports	+21.8	13.2
Non-Euro LDCs		
Exports	+ 3.7	8.2
Imports	+26.7	9.5

Source: Deutsche Bundesbank

Table 2

Index of Net Output of BRD Manufacturing
(% Change 1973-1976)

TOTAL	-2.1
Basic Producer Goods	-5.0
Capital Goods	-0.9
—Engineering	-3.6
—Auto	+2.2
—Electrotech.	+1.2

Source: Bundesbank

Table 3

Investment in BRD Manufacturing
(billion DM)

	Total Manufacturing Investment current DM	Total Manufacturing Investment constant DM	Annual Investment Gap
1970	35.5	35.5	—
1971	37.2	34.9	2.3
1972	34.3	31.5	4.0
1973	34.2	30.3	5.2
1974	33.7	27.7	7.8
1975	32.7	24.9	10.6
1976	34.1	25.0	10.5
1977	36.9	26.9	9.3

Table 4

BRD Corporation Credits

(billion DM)

	1975	1976	% Change
Bond Purchases	2.7	5.1	+ 88.8
Deposit Purchases	16.4	17.0	+ 3.7
Equity Purchases	3.3	2.3	- 30.3
Foreign Trade Credit	7.2	17.5	+143.0
TOTAL	31.7	44.1	+ 39.1

billion cannot continue for a long time, given the growing squeeze on importers' finances.

The general survey of West German production (Graph 1) shows that production has variously either stagnated in the first half of 1977 or declined, continuing the trend begun in 1973. Mining alone dropped 10 points between January and June as steel companies cut back on orders for coking coal, and utilities, despite a minor upturn in energy production in April, still had giant stockpiles of lignite used for electrical generation. Both construction and mining indicators have stagnated at 1970 levels, while manufacturing has stagnated around 115 (base 1970) for six months. Within manufacturing, moreover, there has been a shift from construction and capital good to auto production.

GNP Increase Drops To 3 Percent

The picture of general economic stagnation is borne out by last weekend's Federal Statistical Office's statement that the West German GNP only increased 3 percent in the first half of 1977, compared to a 6.1 percent GNP increase in the corresponding period in 1975. Adjusting of inflation, this means that for three half-year periods in a row the West German GNP has actually declined with the rate of growth in current DM decreasing from 6.1 percent in the first half of 1976 to 5.3 percent in the second half of 1976 to only 3 percent presently.

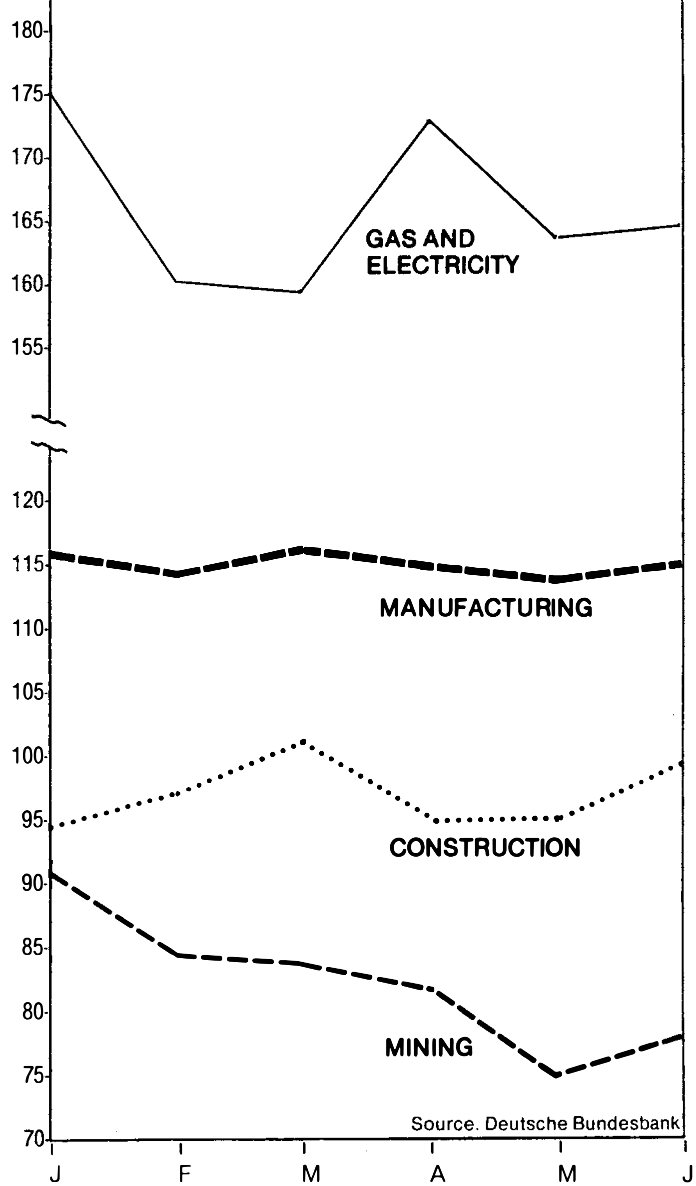
An analysis of key West German industries (Graph 2) shows that although there was some first-quarter improvement in machine tool, iron and steel, electrotechnical, and chemical sectors, the improvement was temporary and insignificant in light of the miserable 3 percent GNP increase. The steel industry, the backbone of any industrialized country, has already laid off 100,000 workers in the past decade; 20,000 were laid off in 1976 alone. The remaining steel industry, with 315,000 workers, is operating at 60 to 70 percent capacity and barely produced 20 millions tons of steel from January to June, which is 8 percent les than comparable figures for 1976. Increasing plant obsolescence has also caught up with the industry, with 37 percent of all January to June 1977 domestic steel sales going to cheaper and more efficient foreign steel firms.

The Dutch-German Estel group, the parent company of the Hoesch steel group in West Germany (West Germany's fourth largest steel producer), gave a good indication of the state of the entire industry when it posted pretax losses in 1976 of $7 million and promised it would be profitable again by 1980. Even Krupp, which has managed to get DM 10 billion worth of orders on its books, is releasing no information on profits, and stated that it cannot guarantee jobs in its machinery, machine tool, and industrial plant construction division. Some steel companies, like Mannesmann, the world's leading manufacturer of seamless and large diameter pipe, are only staying in business due to massive orders for large

Graph 1

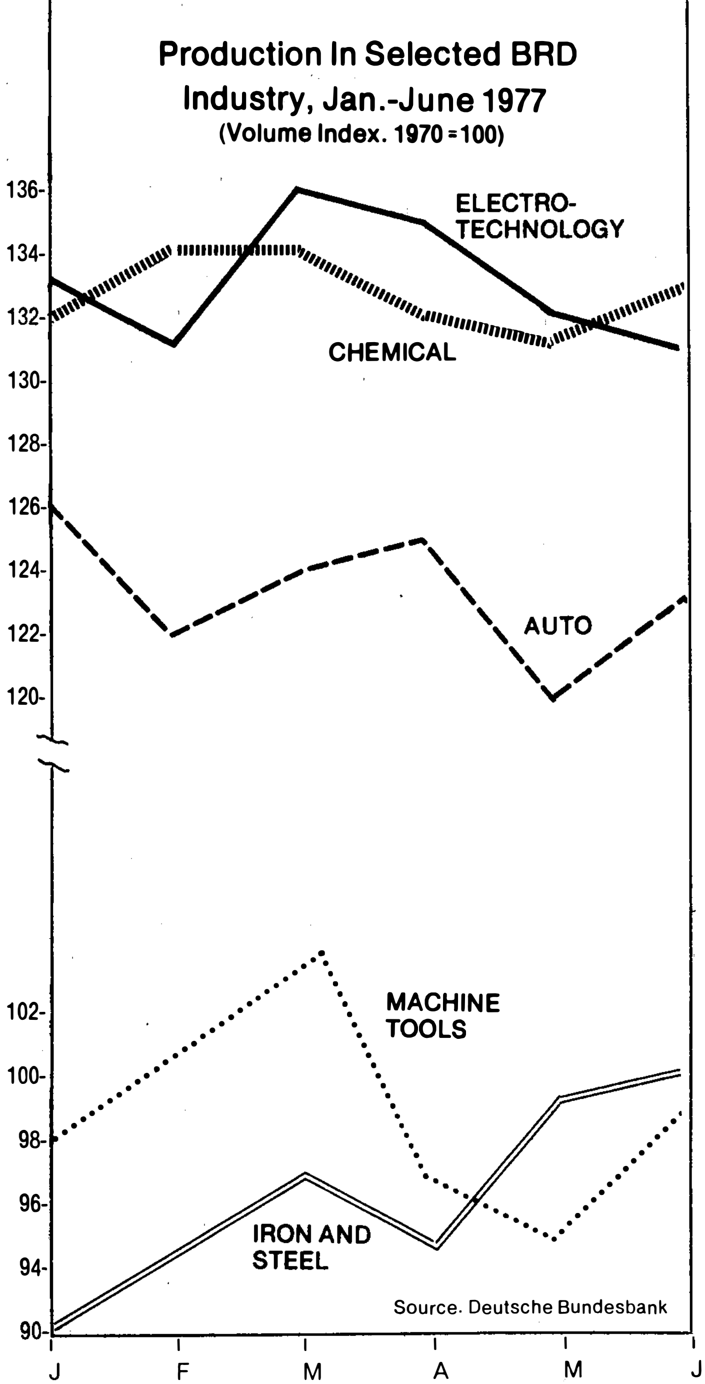
General Survey Of BRD Production, Jan-June 1977

(Volume Index. 1970 = 100)

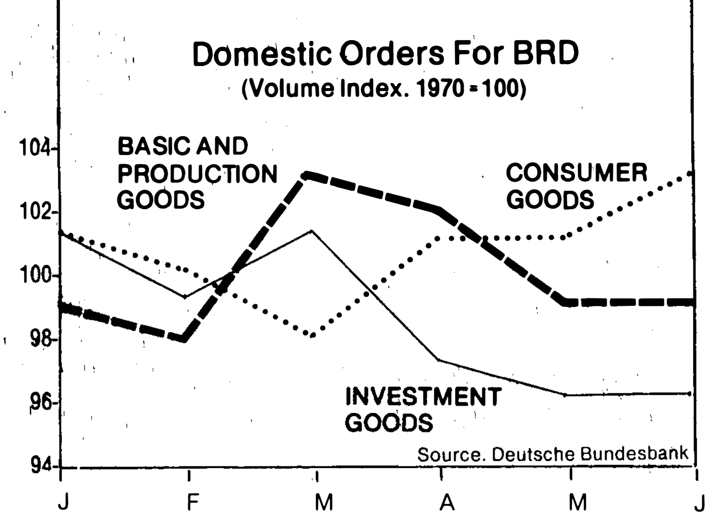


Soviet industrial projects. Eighteen percent of Mannesmann's turnover in 1976 depended on Soviet orders, and the firm conducts 15 percent of all West German-Soviet trade. Mannesmann shipped 300,000 tons of large-diameter pipe to the Soviet Union in 1976, and the Soviet Union has a September order for 200,000 more tons that will completely occupy the Mannesmann large pipe mills for October, November, and December 1977. The recent *Chemie 77* chemical and industrial processes trade fair in Moscow produced Soviet orders worth DM 10 billion ($4 billion) for a huge Soviet petrochemical complex in Siberia, but despite these large East Bloc orders, the steel indicator is still below 1970 production levels, and West German exports to the East Bloc are decreasing.

Graph 2



Graph 3

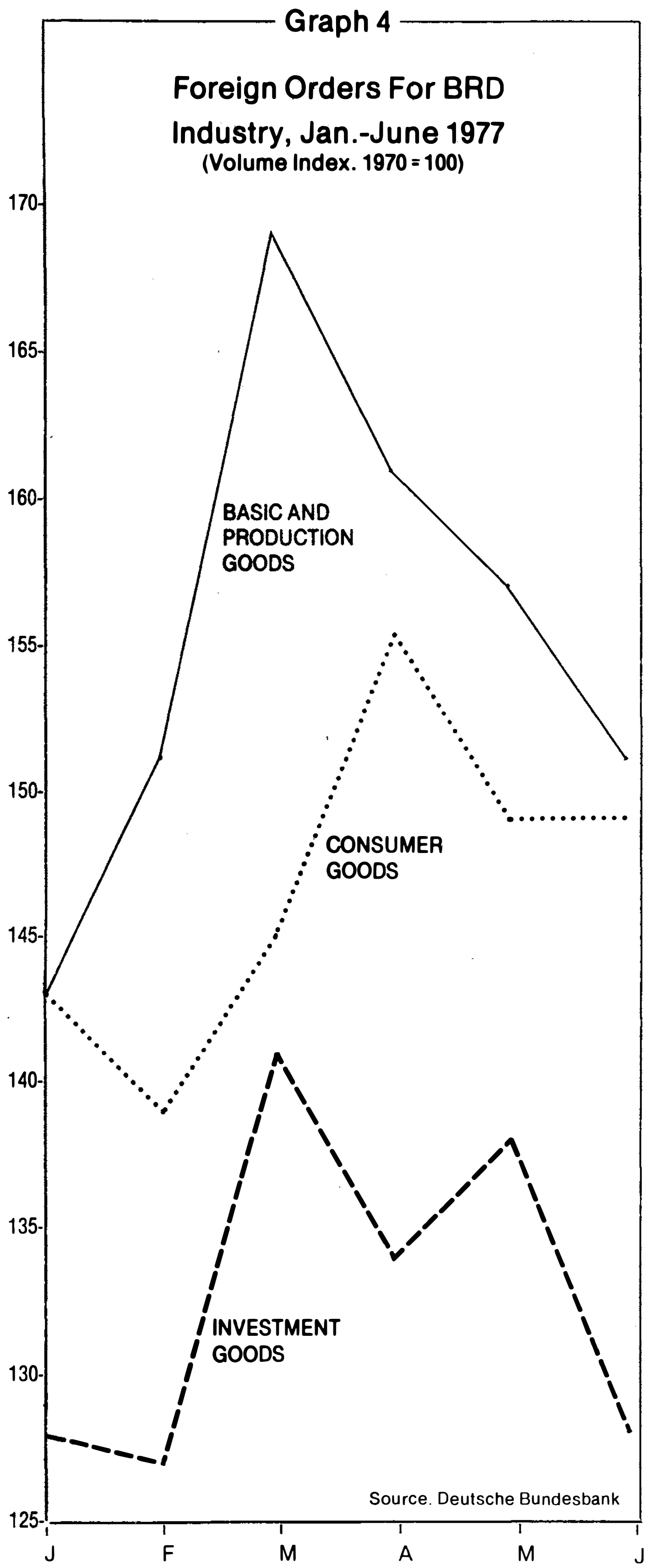


The improvement in the machine tool sector from May to June only looks good in relation to the 10 point drop in machine tool orders from March to May. April orders alone were down 17 percent from March, and, as in iron and steel, the temporary improvement is due to non-repeatable orders such as rationalization of existing machines and machine retooling for the miniscule auto boom. The machine tool indicator has yet to permanently break the 1970 level of production this year.

The second major West German industrial sector, chemicals, resembles the steel industry in its last-ditch dependence on large Soviet orders. Bayer has a DM 100 million-per year business with the Soviet Union, BASF DM 200 milliion a year, and all three West German chemical giants have picked up several large one-shot orders from the East Bloc in the past year. Although the chemical industry has managed to keep their volume up by the traditional chemical industry approach of creating new markets for new products, their profits have dropped drastically; Bayer and Hoeschst's pretax profits for the second quarter of 1977 were down approximately 11 percent, while BASF's profits dropped by 33 percent. The industry cannot continue to suffer such profit losses, even though it has traditonally subordinated profits to achieving a steady increase in production and sales.

Electrotechnology has clearly not recovered from the delay in domestic power plant construction caused by ecologist law suits, or from the international ecologist attack on the export of nuclear power equipment to the Third World. There have been no major foreign orders for this sector since the Brazil deal last year, although discussions are underway for reactor sales to Nigeria, Algeria, and Spain. Nuclear industry scientists and technicians protest that they cannot wait indefinitely for nuclear expansion to revive.

The graph for domestic orders (Graph 3) and foreign orders (Graph 4) speak for themselves. Domestic orders



for the two categories of capital goods — basic and producer goods — and investment goods, have stagnated below 1970 levels for the first six months of 1977. Only the consumer goods sector has been able to climb beyond the 1970 level, but consumer goods represent only about 20 percent of West German industrial production. Even though automobile purchases are classified in West Germany as capital investments, the alleged auto boom has been unable to stimulate the overall capital goods indicators. The stagnation in the capital goods indicators between May and June shows that car orders are not going to regain their first quarter peak.

It is foreign orders that have seen the widest fluctuations and steepest drops in the first six months, with the two capital goods indicators approaching the lows they hit at the beginning of the year. The continual drop in orders in the capital goods sectors in the first half of 1977 proves that there will be no upswing in these sectors in the second half, and these sectors are the driving engine of the West German economy.

— James Cleary