income in other areas, so when housing slumps, they can survive. Congressmen object that this means they will do less net financing for housing. That's true, so what? There will have to be fewer, and more expensive mortgages. . . .

So Reg Q doesn't protect the thrifts, and the thrifts are not efficient for financing housing. But in any case—might we not have *too much housing?*. . .

We got into this idea of building a lot of housing because mortgages were too cheap, and were financed by an indirect tax on the savings depositors. Ten years ago, when depositors were very, very dumb, and were willing to get a lousy 5 percent on their deposits, they in effect subsidized the mortgage market. The great unwashed masses of depositors got 5 percent, and so the S&Ls could afford to make mortgage loans at 5 or 7 percent tax on the poor to subsidize housing for the rich.

Mortgages were underpriced, period. These small-town, fat S&L executives believed they had some kind of religious duty to keep making home mortgages at affordable rates, beyond all economic reason. They made them at fairy-tale prices.

But then the money-market funds and other floating-rate instruments came in, and the dumb depositors wised up, took their money, and went elsewhere. The game is over, and the S&Ls can't get away with it anymore, and they've got all those mortgages on the books at fixed rates, which are losing them money. So, we had to pass the deregulation act to raise mortgage prices. Mortgage rates have been raised, and they should be even higher than they are. Thrifts should be forced to price them, not on their actual 8 percent costs of deposit, but on the interest rates they are foregoing by not investing in Treasury bonds at 12 percent, and investing in mortgages.

This is good, because the fact is, *we have too much housing in this country.* Ten years ago, we went on a home-building spree. We built houses all over the country, contractors were humming, the building trades were working, everyone had a grand time. Gee, wasn't that fun, Ma? But now, we have too many houses, and scarce resources, especially scarce capital. We can't afford capital for housing.

I think it's outrageous that the typical college graduate today expects automatically to be able to live in a three-bedroom house with one and a half baths. He thinks it's the American dream—who says he's right? If he wants it, he's going to have to pay more, a lot more, and then he'll see that he's going to have to be satisfied with a smaller, more efficient apartment. Variable-rate mortgages, renegotiable-rate mortgages, these are a godsend to us. They make housing simply too expensive, and unplannable to boot.

But, it's too bad, now we won't be able to get any more legislation anytime soon.

West German Steel

The Ruhr decides to fight the recession

by George Gregory

A week and a half after a two-hour demonstration by the entire city of Dortmund, including 15,000 steelworkers from the Hoesch steel plant, the Hoesch board of directors announced that it will reverse its previous cancellation of modernization plans.

A new state-of-the-art oxygen blast furnace will be built as originally scheduled. The new 550 million DM plant will replace a number of obsolete Siemens-Martin facilities in the Westphalian foundry complex.

The Hoesch management had previously argued that the output ceilings established by the European Commission of the European Community (EC) under Count Etienne Davignon precluded not only expansion of present Ruhr capacities, but also modernization investments, because modernization would not be profitable under the new regimen of reduced output.

An export crunch

Hoesch's decision could be the first in a chain reaction at the European-wide and regional levels—a concerted fight to reverse the "American-style" recession, as it is known here, predicted for Europe through next year and beyond.

The Davignon plan imposes on all European producers 18 percent cuts in the last quarter of 1980 and 25 percent cuts in the first quarter of 1981, relative to Oct. 1, 1980 production levels. The plan had compounded the frustration among German steel producers.

With unusual frankness concerning the political dimensions of their predicament, a spokesman for the Iron and Steel Association conceded to *EIR* that "Carter ruined Iran for us—we were shipping nearly a million tons of steel there, not to mention plant, equipment, and machinery, before Khomeini took over. Then Carter ruined Turkey, which used to be a significant customer of ours. It is difficult to calculate whether we lost more to the [U.S.] antidumping suits or to U.S. super-interest rates, which killed the market for us, though of course it killed the market for American producers too. We lost 58 percent of our U.S. exports, in any case."

While the industry and its associations are not willing to provide detailed figures at this time, they say the Davignon Plan, which descended on top of this blight, is gutting their export markets under the pretext of managing an "overproduction crisis" on the European markets. The production-cut quotas imposed on German producers and watched over by a corps of European Commission "gendarmes" in the factories, prohibit them from producing enough steel to meet their export contract deliveries!

The German producers have been obliged to try to convince the customers with whom they already have contracts to move delivery dates forward by two to three and a half months. This roughly corresponds to the mandatory cuts in capacity utilization. If some customers cannot wait that long, the German companies will have to *import* steel, at prices tending to catch up with the 10 to 15 percent price hikes the quota system is supposed to provide.

Because of this grotesque situation, and because of the resulting tendency to worsen the German balance-of-payments deficit, steel companies are holding back on acceptance of additional export contracts, for fear that they may have to pay out more to meet the delivery terms of foreign customers by purchasing foreign steel.

The démontage principle

For the German steel sector, which exports 35 percent of its total output, this is a disaster. The new oxygen steel furnace at Hoesch was to have been the first big sacrifice to this disaster. Hoesch is the most vulnerable of German producers, having moved into near-black figures only in the past two years.

The city of Dortmund is practically identical with the Hoesch steelworks there. Policy-makers for the other German steel giants are following the situation closely. They say that industrial shrinkage in Dortmund—the mayor of Dortmund, Günter Samtlebe, calls it démontage, the term for British postwar dismantling of German industry, which Dortmunders fought quite effectively—would be followed by a ghost-town phenomenon throughout the Ruhr, beginning with Duisberg and Essen.

A special Ruhr Conference has now been called by Mayor Samtlebe for Dec. 18, to be attended by industrial and trade-union leaders, regional politicians, and representatives of the federal government in Bonn. The meeting is expected to draw up a package of economic development plans for expansion of the heavy industrial heartland of the eastern Ruhr.

This in itself signals a broader fight. Krupp Steel, for example, has its legal department working on a court battle against the Davignon production cuts, in what could be a flagship effort on behalf of the industry as a whole. When added to the legal actions at the European Court already initiated by the aggressively modernizing northern Italian steel producers in Brescia, the Davignon policy may be forced into a retreat.

The domestic battle here in Germany will be no less dramatic. Half the DM 550 million (about $235 million) credit already promised for the new Hoesch plant will come from the state government of North Rhine-Westphalia and the Bonn government, at a subsidized interest rate. The Ruhr Conference intends to tackle the fact that the difference between going rates of interest and subsidized rates is just enough to balance out the increased costs of energy of about a year and a half, at present levels of energy-price inflation.

The Ruhr, the most densely population industrial region of Europe, derives *not a single kilowatt-hour* of electricity from nuclear reactors, and the steel industry, concentrated in the Ruhr, accounts for 10 percent of total energy consumption here.

In attempting to make Bonn face up to this situation, the Ruhr Conference will press to unfreeze some DM 60 billion in blocked investments for power-plant construction in the Federal Republic, 80 percent of which is for nuclear power construction.

The overall planning to install nuclear facilities could be completed very quickly. Years-old blueprints for projects exemplified by an industrial park driven by high-temperature reactors in the former coal-mining area north of Dortmund merely have to be liberated from the files.

As the Association of Industrial Power Facilities stated pointblank in its 1979/1980 report: "We can only forego nuclear power if we are willing to forego the industries without which no industrial country has any long-term chance to exist." Dr. Detlev Rohwedder of the Hoesch board of directors has estimated that Hoesch alone would save DM 60 million annually with even a significant, but not predominant, component of nuclear power in the energy mix.

The second major item in the overall Ruhr package will be the construction of a new, expanded lock and sluice system at Heinrichsburg, near Dortmund. The present elevator system, which lifts a huge bathtub with 90-meter motorized freight ships, is incapable of handling the quad barges needed to transport the expected freight volume for the 1990s—about 5 million tons in iron ore alone.

When it looked as if the Hoesch management would decide to shelve its oxygen furnace modernization plans, environmentalist factions in the Bonn Transportation Ministry began fiddling with cost/benefit studies that argued as follows: the expanded canal freight facilties would not be profitable if the new plant were not built, i.e., if Dortmund underwent "deindustrialization." The expanded locks, according to engineers waiting to go to work, would cost about DM 120 million; but the increased freight capacity would save an estimated DM 20 to 30 million each year.