

West German bankers and industrialists join demand for further lending expansion

by George Gregory, Bonn Bureau Chief

When industrialist and banking personalities like Rolf Rodenstock and Karl Klasen enunciate their disappointment over the Oct. 8 decision of the German Bundesbank to ease off interest rates here with a mere 1 percent reduction of the bank-refinancing "special lombard rate," it is a sure sign that Chancellor Schmidt's trade-union SPD base has allies who are not about to let sleeping dogs lie at the central bank.

Rodenstock, who is President of the Association of German Industry (BDI), had an informal discussion recently with the editorial board of the *Frankfurter Allgemeine Zeitung*, and asserted that the accelerating bankruptcies over 1981 to date was reason enough for the Bundesbank to have lowered interest rates. The rate of insolvencies, up 24 percent over last year as of August, is far beyond any "natural economic selection process" among healthy and ailing enterprises, he said. His explanation was that this is a result of high interest rates having depressed investment activity.

Klasen was himself President of the Bundesbank at the beginning of the 1970s, when Chancellor Schmidt was Finance Minister in Bonn; Klasen now manages the Deutsche Bank in Hamburg. In Dr. Klasen's view, one that no banker in Germany would interpret as the position of a mere factional lobbyist, German interest rates are going to "continue to slide downward." "The economy urgently needs cheaper money," he said in an interview, "so that we can finally invest again to create and maintain jobs."

The German industrial and banking community already sees the Rodenstock/Klasen configuration as a virtual barrage of heavy artillery. The Bundesbank typically battens down the hatches when it comes to justifying its lineup on the side of the Bank for International Settlements on the interest-rate issue; also, typically, German business associations are allergic to the idea of the Bundesbank's being forced to "lose face" in battles with their own trade-union opponents. But now that the powers that Rodenstock and Klasen represent have spoken, matters are entirely different. Professor Rodenstock even castigated other banking and industrial associations generally for having been incapable of putting their

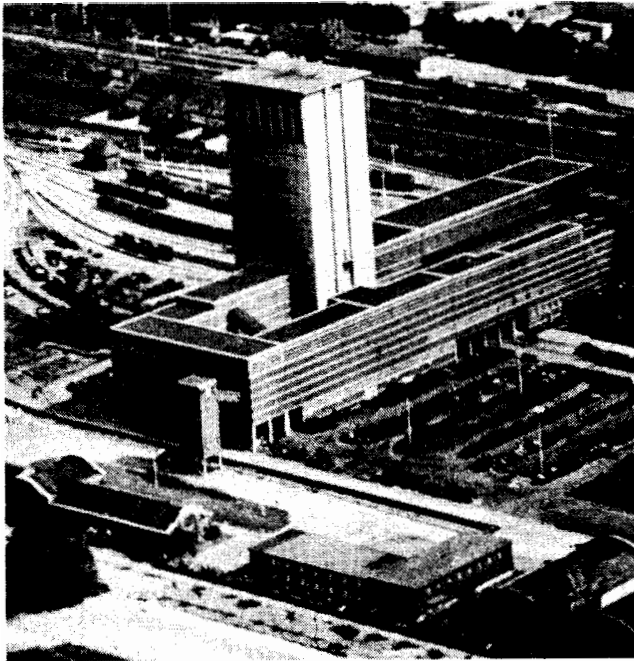
minds together in political support of the ways and means to bring interest rates down further.

No Japanese-model development

The success of the German export drive this year, up at least 4.5 percent overall in a climate of contracting world trade, is remarkable. Furthermore, barring materialization of a number of crises Chancellor Schmidt has identified, the German export profile is a solid one: incoming foreign orders are still running at rates higher than actual foreign deliveries, which is proof that the previously super-cheap deutschemark is not the only reason German market positions have strengthened.

The contrast, however, with domestic GNP contraction of negative 1.5 percent thus far this year is dramatic; and it runs counter to the case of Japan, where the export drive not only rapidly turned around a sizeable external current-account deficit, but also fueled a strong domestic recovery and investment activity. German industry, ultra-sensitive to high interest rates because of the miserable debt/equity ratio that has persisted throughout the postwar period, has been simply incapable of capitalizing on its export earnings sufficiently to leverage investments that translate into domestic growth. In some branches of industry, export activity has expanded very handsomely, but in almost perverse relationship to net domestic production and investment generated. Some firms in the crucial machine-tool and plant and equipment construction sectors, for example, have achieved export dependency ratios of upward of 70 percent, in comparison with export dependency within the total economy of somewhat over 25 percent.

For these reasons, a number of economic forecasting oracles have fallen in line with tentative projections published in an *EIR* multi-client study of July-August, where *EIR* pointed out that projections of 2 percent GNP growth for the German economy by institutions such as the International Monetary Fund, the OECD, and even Bonn's Free Democratic Economics Minister Graf Lambsdorff, were politically motivated to make the IMF's and BIS's budget-slashing demands on Germany more palatable. *EIR* projected that, even exclud-



Modern mining complex in the Ruhr: investment is now difficult.

ing consideration of the globally disastrous consequences of a financial and economic collapse in the United States, Germany would be lucky to register just zero growth of GNP in 1982, over negative 1.5 percent in 1981. Barclay's Bank in London now remains on the optimistic side with its projections of 1 percent growth for Germany, while pointing out that record German interest rates make the previous OECD/IMF projections of 2 percent untenable.

Otto Wolff von Amerongen, President of the German Chamber of Industry and Commerce, has pointed out that Germany would require a 4 to 5 percent rate of growth in the second half of 1982 to reach a net 2 percent on the year, launched from the present trough of domestic economic activity. To term the second-half 1982 growth rates of such magnitude impossible is not pessimistic under the circumstances.

There is also general agreement now that even a rate of growth of 2 percent would be insufficient to reduce present rates of unemployment of near 1.3 million, especially as 200,000 young operatives will be coming onto the labor markets.

Interest rates with a previous floor at the 12 percent special lombard rate, now 11 percent, and mortgage rates hovering around that general level, have thrown domestic construction down to 55 percent capacity utilization; and this industry has never recovered from the 11 percent tax on investments levied by the Brandt government in the construction crisis of 1974. Further aggravation comes from reduced public expenditures on investment and construction at the community and state levels. High interest rates over 1980-81 have ripped

holes in state budgets which are going to be very expensive to repair. In the crucial industrial state of North-Rhine Westphalia, total state debt has doubled since 1978, and even on present projections will be higher than the planned budget of 58.9 billion marks by 1983. The Chancellor's own city-state Hamburg had a deficit of 419 million marks planned into the 1981 budget, but the interest-rate induced slackening of economic activity has resulted in a tax-income shortfall that pushes the actual 1981 deficit up to 700 million.

Chancellor Schmidt has estimated that genuine economic progress will only be seen when German interest rates fall three points to 8 to 9 percent. "That would be the best investment program we could have."

Deutschemark strength

Just before the Bundesbank lowered the special lombard rate, the Bonn Finance Ministry made it known that it was striking the last domestic weapon from the Bundesbank's arsenal of justifications for high interest rates: as of the beginning of October, government borrowing requirements have been fulfilled well ahead of schedule, with 90 percent already covered. Judging from the rate of borrowing from domestic and foreign sources over the year, about 8 billion marks remain to be pulled in, and that could be done in a month to six weeks easily.

From mid-August to date, the mark has strengthened to the dollar from 2.50 to a tentatively stable 2.18 deutschemarks now. That was effectively a belated recognition of the strength of the German export performance and the consequent improvement in the external current-account deficit. The most conservative estimate of the shift in the German current-account balance for 1982, were present developments simply extended, would halve it to a deficit of 10 billion.

However, those domestic and foreign considerations pale in the face of the fact that no one here in banking or business believes that Fed Chairman Volcker can control a collapse of the U.S. economy, and, even before the assassination of Egyptian President Sadat, Chancellor Schmidt had called attention to the extreme danger of a blowup in the Middle East. He saw that danger, and the "danger of a failure of economic policy in the United States and France" as the severest threats to international peace and the world economy.

Schmidt is looking for allies to stabilize the Middle East. If he does not find them for effective action, there is no hope for the German, or European, economy. If he does, the Chancellor and his domestic allies clearly have the power to tear interest rates and monetary policy out of the hands of the BIS, and thereby show the United States how to halt an economic collapse and get on with the business of healing the world economy and monetary system.