Conference Report

German industry in a policy debate

by George Gregory, Bonn Bureau Chief

This year's annual conference of the German Chambers of Commerce and Industry (DIHT) provided a rare spectacle: representatives of the feisty old-guard of the German industrial world tearing away, with as much of a sense of humor as they could muster, at some of their less entrepreneurial colleagues, who were being urged by DIHT President Otto Wolff von Amerongen to get "a sniff of American economic policies." Such a "sniff meant getting used to the idea of "curative bankruptcies," a phenomenon enforced here, too, to an increasing extent by historically high interest rates crimping liquidity available for investment in meagerly capitalized industries, accompanied therefore by exhortations to face up to open confrontations with the trade unions, and willingness to throw a simple temper tantrum to force more budgetary austerity on the part of the SPD-FDP Bonn government coalition.

Of course, since early spring, it has been well-known that Chancellor Schmidt has sworn that he would "never think of applying American [fiscal] methods here." Von Amerongen has, nevertheless, gone on the warpath: his DIHT, even before the annual conference, launched an astonishing attack on the German Bundesbank for having lowered the special lombard bank-refinancing rate from 12 to 11 percent as "premature, and therefore a mistake." That alone put von Amerongen on the opposite side of the fence from most of the business community, and from such figures as Professor Rodenstock, President of the Association of German Industry (BDI), Karl Klasen, former President of the German Bundesbank, Hans Fahning, President of the Association of Public Banks, and, of course, the government in Bonn.

Otto Schlecht, State Secretary in the Economics Ministry, proposed that Mr. von Amerongen get a new pair of glasses, in response to von Amerongen's accusations that the Bonn government "has no courage for long-term planning," and that this had caused German industry to lose its nerve. While Schlecht pointed out that present shifts in Bonn's budget allocations will give industry an additional 16-billion Marks in depreciation allowances, Economics Minister Otto Graf von Lambsdorf suggested the explanation that Amerongen's behavior was merely due to "high blood pressure." All this was quite refreshing.

On the other hand, when it comes to long-term, or even medium-term thinking, the DIHT meeting evinced a serious disorientation on the part of German industry. While too many visibly enjoyed gloating over the foolishness of some Social Democrats who fretted over nuclear power and wanted to build "only small nuclear reactors so that it is still possible to reverse any decisions we make," most of the industry audience merely sat dazed at the prospect of the Federal Republic's covering 18 percent of its energy requirements by 1990 with nuclear power, as opposed to 28 percent in France, even under the Mitterrand program. The same disorientation was visible in the rather simplistic appeals of some to apply the "Japanese model," which in their eyes simply meant lower wage costs. Worst of all, even though there is hardly anyone who will not admit that the reforms of German education in the 1970s under the influence of Socialist Willy Brandt have been a complete disaster, apparently the best alternative these gentlemen can think of is a return to a crude "apprentice vocational training system."

The old-timers parry

Back in the spring, von Amerongen had already made his move to take up the banner against the Schmidt government. Just at the time when the IMF surveillance team was demanding even more drastic budget slashing than Bonn was planning, and making it known that the IMF was thereby acting in support of both Paul Volcker in the United States and the interest-rates policy of the Bundesbank, von Amerongen lined up with the trumpet-call that the "1980s will be the decade of high interest rates," ostensibly because such masses of capital would be needed to finance synfuels projects that nothing would be left over. Ironically, von Amerongen made that move just as his own company, the Otto Wolff A.G., formerly a decent-sized steel-trading firm, announced that it was getting out of the steel business altogether in favor of diversification into electronics and other "sun-rise industry" fields, because it could no longer afford to finance steel inventories at 14 percent interest rates.

This time around, von Amerongen was out to rabble-rouse among his industrial colleagues. His claim that German business is losing its nerve was intended to convince Bonn that major powers in German industry are renouncing their loyalty to the Schmidt government, and von Amerongen backed this up with the pronouncement that GNP growth for Germany in 1982 would be nowhere near the 2.5 percent previously predicted by the OECD, IMF, and the Bonn Economics Ministry itself. Therefore, the Bonn government would have to slash away at the budget, and industry would have to slash away at wages.

The fact that corporate earnings in the Federal Republic have dropped—according to an analysis by the German Bundesbank, by 15 percent in the first half of 1981 below the first half of 1980—and high interest rates have increased financing costs and pulled nearly 30 billion deutschemarks out of corporate treasuries into bank deposits, securities, and an untold amount of similar foreign hedging-operations, has produced a pronounced squeeze on investments overall. Furthermore, the overwhelming proportion of current investments is going to oil-substitution and energy conservation in an effort merely to cut the energy-cost factor in production. A number of DIHT conference participants argued, therefore, that the only remaining place to cut to gain investment latitude was wages, and the "Japanese model" was usually appealed to in support of the argument.

As simple-minded as that argument was, the old-guard countered with some significant if unintended help from the Brussels European Community Commission, whose representative made it clear that the perspective being offered by his and Amerongen's crew was for an outright de-industrialization of Europe. Heinz Duerr, President of AEG Telefunken and one of the younger old-guard members, stated that "the problem we are facing is that our industries simply do not produce enough; we are producing way behind our actual capacities. If anyone wants to refer to the Japanese model, let me tell you that it is neither better marketing nor lower wages that make Japan more competitive. It is the fact that Japanese industries—and I can say that for electronics in particular—produce in large volumes. We in Germany have to see to it that our industries run at high capacities."

That opened up a furor of debate, with Herr Kirchfield of the machine-tool industry attacking the notion that, under the force of high interest rates, they can afford to get out of production and begin to export more "knowhow" services, since obviously "construction of industrial facilities is seen as the business card proving the capability of transforming scientific and industrial technological progress into production." The main kind of program needed, he said, was to make sure that financing was available for high-technology exports, and that also meant shoring up the federal export-insurance company, Hermes.

This was an excellent backdrop for the horror stories and perspectives presented by a representative of the Brussels EC Commission, who said that "there is a long-term trend toward the decreasing competitiveness of European industries, and structural reforms will decrease by 90 percent in most cases" of these no-longer-competitive industries.

To that, Heinz Duerr countered, "If that is really true, then we are obviously well-advised not to go for that kind of solution," and went on to argue that the only applicable policy was to assure that higher-skilled jobs produce at their appropriate capacities for output, so that "the wage-cost factor reduces itself naturally to its proper level. That we can live with."

When people still insisted that the present American policy would still be a good experiment to try, Economics Ministry State Secretary Schlecht bluntly characterized the American economy thus: "The American economy is a ship sailing under the flag of supply-siders, but the crew at the rudder are the demand-siders, and the rest of the crew on deck just throws out the anchor to stop the money from flowing. You can't run a ship like that."

Education myopia

As much fun as some of the Industry representatives had giggling about the incompetence of certain Social Democrats, when North-Rhine Westphalia Christian Democrat Kurt Biedenkopf took the stage to make his pronouncements on education, the fun was over. Anyone who was thinking of a change in government in 1984 and bringing the CDU in became suddenly less jovial. "I think what the youth is doing is good," he babbled. "They are experimenting with small models of life, and I like that, because I think our best industrial policy is to decentralize, create small businesses."

All of German industry is acutely aware of the lack of skilled manpower (in which category, in fact, unemployment rates reach 2 percent at most—i.e., full employment), and the technical universities generally fill less than half of their potential enrollment. Nevertheless, the DIHT itself tried to present a solution to the crisis that represents nothing but an expanded apprentice system of vocational training, a system which has already traumatized the labor force because of the "reschooling" of operatives from one specific skill to another.

Some, like Duerr, Rodenstock, and Manfred Lennings of Gütehoffnungshütte, pointed out that German-language skill, foreign languages, mathematics, physics, and so forth were being given short-shrift, and that therefore, no basis for future skills could be gleaned from the educationl system. However, such self-evident observations remained at the same level as their instinctive rebuttals of von Amerongen. Industry as a political force is clearly a long way from the institutionalization of the educational system launched by the von Humboldt brothers, and incorporated into the Göttingen association of classicists, physicists and industrialists at the turn of the 20th century in Germany. The tragedy such myopia presented was all the more painful, insofar as some of today's German industrial leaders are themselves products of the Berlin-Göttingen-von Humboldt system of education in science and the classics.